



PROBING THE UNEMPLOYMENT PROBLEM

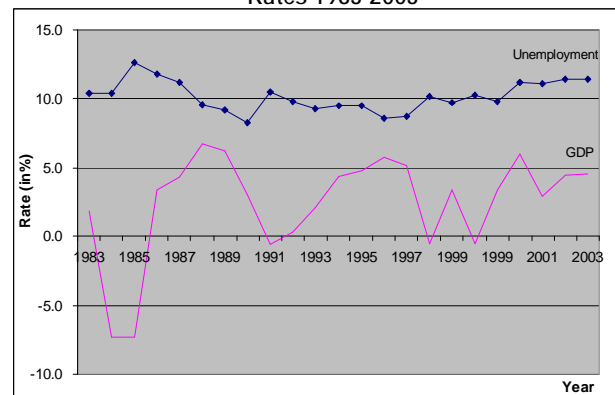
The recent abduction crisis of Angelo dela Cruz, an Overseas Filipino Worker (OFW) in Iraq, not only spurred numerous discussions on the country's foreign policy, it also drew attention to the dearth of jobs in the country.

The country's unemployment trend generally mirrors its pattern of economic growth. It rose during periods of crises and declined when output was accelerating. The unemployment rate peaked in 1985 at 12.6%, following the political crisis in the said period, and gradually tapered off in the subsequent years as the economy began to stabilize. Again, it started to rise to 10.5% in 1991 due to the mild recession and hovered at around 9% in 1992 to 1997. In the aftermath of the Asian financial crisis and the poor performance of agriculture brought about by the El Niño phenomenon, the jobless rate went up again to 10.1% in 1998. In the last three years, despite the average GDP growth rate of 4%, the unemployment rate stagnated at 11.3%. As of April this year¹, it stands at 13.7% equivalent to around 5 million jobless individuals, one of the highest figures in recent years.

The gravity of the Philippine unemployment problem can be further grasped by comparing it with other Asian economies.

¹ The National Statistics Office conducts the Labor Force Survey every January, April, July and October to determine the number of unemployed and underemployed in the country. Historically, unemployment rates in April are always on a seasonal high because of the new influx of graduates.

Figure 1. Philippine GDP Growth and Unemployment Rates 1983-2003



Source: National Statistical Coordination Board

In 1980, the country had a lower unemployment rate vis-à-vis Malaysia. Two decades after, the Philippine's unemployment is three times the rate of the said country and one of the highest among East Asian nations.

Table 1 . Unemployment Rate, Southeast Asia

	1980 ^a	1990 ^a	2000 ^a	2003 ^b
Indonesia	3.0	2.5	6.1	9.8
Malaysia	5.6	5.1	3.1	3.3
Philippines	4.8	8.1	10.1	11.4
Korea	5.2	2.4	4.1	3.4
Thailand	0.8	2.2	2.4	2.2
Vietnam	-	-	6.4 ^b	5.8

Source: ^aIslam 2003, ^bAsian Development Outlook, 2004

Note: Philippine unemployment rate tends to be higher because its definition differs from international standards (though we are similar with Malaysia and Thailand) which say that a person is unemployed if he is: (a) not working, (b) currently available for work and, (c) actively seeking work. The Philippines includes among the unemployed even those who did not look for work because of: (a) belief that no work is available, (b) temporary illness/disability, (c) bad weather or, (d) awaiting for job rehire. Adjusting the Philippine unemployment rate to the international standards will lower the 2003 unemployment rate to 7.4% (DOLE, Feb. 2004)

Why the perennial problem?

The increase in unemployment can be attributed mainly to two factors- the high supply of labor and the insufficiency of jobs.

From 1990 to 1999, the country's labor force grew by an average of 2.9%, generally reflecting the country's population growth rate. This translates to 796,000 additional workers every year. Growth was much faster in the last three years, averaging at 3.8% or 1.2 million more workers annually. In contrast, the number of jobs generated by the economy came to only 707,000 every year between 1990 to 1999 and 1.1 million in 2001 to 2003. Because jobs have not kept up with the increase in the labor force, every year, more and more people are added to the already swollen ranks of unemployed.

Table 2. Key Labor Force Indicators, 2001-2004

INDICATORS (in millions)	2001	2002	2003	2004	
				Jan	April
Total, 15 yrs old & over ^b	48.9	50.3	51.8	52.7	53.0
Labor Force (LF)	32.8	33.9	34.6	35.4	36.5
LF Participation Rate (in %)	67.1	67.4	66.7	0.7	68.9
LF Growth (in %)	6.1	3.4	1.8	5.2	5.4
Employed	29.2	30.1	30.6	31.5	31.5
Employment Rate (in%)	88.9	88.6	88.6	0.9	86.3
Underemployed	5.0	5.1	5.2	5.5	5.8
Underemployment Rate in%)	17.2	17.0	17.0	0.2	18.5
Unemployed	3.7	3.9	3.9	3.9	5.0
Unemployment Rate (in%)	11.1	11.4	11.4	11.0	13.7

Source: NSO

Note: ^b The 15 years old and above are considered to be the working-age population. Not all of them participate in the labor market as some still go to school, do housekeeping, are disabled or retired from work.

Table 3. Number of Jobs Generated, 1993-2003

Year	Jobs generated (in '000)	Labor Entrants (in '000)	Difference (in '000)
1993	686	589	97
1994	650	775	-125
1995	644	728	-84
1996	1,510	1,351	159
1997	529	622	-93
1998	196	701	-505
1999	1,069	1,025	44
2000	-289	152	-441
2001	1,703	1,897	-194
2002	907	1,127	-220
2003	566	625	-59

Source: NSO

Regional unemployment

Regional unemployment indicators have their own stories to tell. For instance, while majority of the regions exhibited double-digit unemployment figures, average unemployment rates in the last three years have always been higher in the more densely populated and relatively higher-income regions such as Metro Manila (17.7%), Central Visayas (13%) and Southern Tagalog (12.7%). Conversely, unemployment rates are lowest in the less-densely populated areas of Autonomous Region of Muslim Mindanao (6.5%), Cagayan Valley (7%) and Northern Mindanao (8.1%).

Table 4. Unemployment Rate by Region, 2003-2004

Region	Average	Jan	April
	2001-2003	2004	2004
NCR	17.7	16.9	18.8
CAR	8.8	7.0	10.2
Region I	12.1	11.9	16.0
Region II	7.0	5.8	12.7
Region III	12.4	12.6	14.6
Region IV-A	12.7	13.7	15.6
Region IV-B	9.1	9.1	13.5
Region V	9.7	8.7	9.3
Region VI	11.5	7.8	12.7
Region VII	13.0	12.4	15.2
Region VIII	10.3	7.6	12.4
Region IX	8.7	7.6	7.5
Region X	8.1	7.4	9.8
Region XI	11.0	10.7	10.7
Region XII	10.1	9.4	13.1
Caraga	10.8	8.6	13.3
ARMM	6.5	7.3	9.8

Source: NSO

In April this year, the Bicol region posted a 9.3% unemployment rate while both ARMM and Northern Mindanao got 9.8%. On the other hand, in the NCR, the favorite destination of migrants because of the perception that it offers numerous employment opportunities, unemployment rate was almost twice that of ARMM and Northern Mindanao at 18.8%. All this points to the need to effect a balance in development across regions to keep people from migrating to urban centers which lead to higher unemployment rates in the said areas.

High youth unemployment

Unemployment is particularly high among the young. As of April 2004, the 15-24 year old bracket constituted more than half (50.7%) of the total unemployed, just slightly lower than the 52.7% it posted in April last year. Moreover, unemployment is highest among those who only reached high school level.

Table 5. Unemployment by Age Distribution
April 2003-2004

	April '2003		April '2004	
	(in '000)	(in %)	(in '000)	(in%)
Philippines	4,217	100	4,989	100
15-24 years	2,213	52.5	2,528	50.7
25 – 34 years	887	21.0	1,101	22.1
35 – 44 years	453	10.7	532	10.7
45 – 54 years	317	7.5	408	8.2
55 – 64 years	223	5.3	286	5.7
65 years and over	124	2.9	134	2.7

Source: NSO

Understandably, the young, less- experienced and less-trained people are more likely to be jobless than their older counterparts. Government policies must, hence, be geared towards reducing the number of young people leaving school sooner. Keeping the youth in school will not only prepare them for a more productive future, it will also effectively lessen the number of people entering the labor market.

Table 6. Unemployment by Highest Grade Completed
April 2003-2004

Highest Grade	April 2003		April 2004	
	(in '000)	(in %)	(in '000)	(in %)
Total	4,217	100	4,989	100
No Grade Completed	68	1.6	100	2
Elementary	827	19.6	1,001	20.1
Undergraduate	402	9.5	469	9.4
Graduate	425	10.1	532	10.7
High School	1,827	43.3	2,156	43.2
Undergraduate	718	17	814	16.3
Graduate	1,109	26.3	1,342	26.9
College	1,494	35.4	1,732	34.7
Undergraduate	801	19	945	18.9
Graduate	693	16.4	787	15.8

Source: NSO

Also, given that China and other neighboring countries have cheaper and more abundant labor to offer, the only way for the Philippines to compete is to make its workforce highly-

skilled and productive, thus, the need for higher levels of learning. Designing well-targeted financial assistance programs and expanding alternative access to learning such as distance education would do well in reducing the high dropout rates in the country.

Tertiary education, however, does not guarantee a job with decent wage, as 35% of the total unemployed today are college graduates. Several factors may be in place here. One is simply the lack of jobs. Or when jobs are available, they are usually not in the fields of specialization where graduates were trained for. Students, or their parents, choose courses unaware of the demands of the market, hence, finding it difficult to land jobs in the future. The quality of tertiary education also matters as some college graduates are still deficient of the minimum competencies required at the time of job entry. Most fresh graduates fail to get hired over their lack of the minimum six-month job experience. Another kind of mismatch is “overqualification” wherein college degrees are required even in the relatively less skill-intensive jobs.

These cases imply the need for improvements in the labor market information system and forging closer links between schools, training institutions and industry. For instance, the POEA has announced that contrary to general perception, “there is no huge global demand for caregivers overseas especially among existing markets as evidenced by a marked general slowdown in deployment between 1998 and 2003.”² Yet we see a mushrooming of local caregiver training institutions nationwide. Experts, on the other hand, are in agreement that the demand for customer contact centers, medical transcription, animation and other core information technology (IT) services is continuously growing. Given these projections, the government should take the necessary steps

² “The truth about the global demand for caregivers,” POEA Advisory No. 4, Series of 2004

to improve the quality of education and increase the pool of workers with knowledge and skills appropriate for the said fields. To improve the new graduates' chances of getting jobs, a six-month on-the-job training can be included in the school curricula. Further, because of the high rate of obsolescence these days, it is important to also put in place a program that will allow the retraining and upgrading of skills, particularly of the unemployed, to make the workforce more responsive to the rapidly changing needs of the labor market.

Employment by major industry

Although the Agriculture, Fisheries and Forestry (AFF) sector posted a 7.7% phenomenal growth for the first quarter, it also experienced the highest slump in employment in April 2004. Seventy-six thousand jobs were lost in agriculture, and its share to total employment declined from 36.7% to only 35.1%. This is because most of the growth in the agricultural sector is attributed to favorable weather and improvements in productivity, particularly, the more intensive use of hybrid rice and corn.

Table 7. Philippine Employment by Major Industry Group
April 2003-2004

Industry	April 2003		April 2004	
	(in '000)	(in %)	(in '000)	(in %)
TOTAL EMPLOYED	30,418	100	31,520	100
AGRI, FISHERY & FORESTRY (AFF)	11,155	36.7	11,079	35.1
Agri, Hunting and Forestry	9,970	32.8	9,737	30.9
Fishing	1,185	3.9	1,342	4.3
INDUSTRY	4,860	16	5,139	16.3
Mining and Quarrying	105	0.3	139	0.4
Manufacturing	2,892	9.5	3,070	9.7
Electricity, Gas & Water	16	0.4	137	0.4
Construction	1,747	5.7	1,793	5.7
SERVICES	14,405	47.4	15,304	48.6
Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles and Personal Household Goods	5,636	18.5	5,980	19
Transport, Storage & Communication	2,287	7.5	2,359	7.5
Financial Intermediation	286	0.9	339	1.1
Real Estate, Renting & Bus. Activities	63	1.9	670	2.1
Hotels and Restaurants	709	2.3	792	2.5
Public Ad. & Defense, Social Security	1,466	4.8	1,623	5.1
Education	934	3.1	881	2.8
Health & Social Work	371	1.2	341	1.1
Other Community, Social and Personal Service Activities	901	3	870	2.8
Private Households with Employed Persons	1,251	4.1	1,448	4.6

Source: NSO

While there were fewer agricultural workers, the industrial sector employment posted a slight uptick from 16.0 to 16.3%. Manufacturing, as well as mining and quarrying, absorbed more laborers, with their employment share rising from 9.5% to 9.7%, and from 0.3% to 0.4%, respectively. Services continued to draw almost half or 15.3 million of the country's workforce since it surpassed the agricultural sector in terms of employment in 1997.

Quality of employment

One must, however, look at the job issue not only in terms of quantity but also in the quality of jobs generated.

The underemployment rate, or the proportion of people working less than 40 hours a week or desiring to have additional working hours may be used as an indicator of job quality. This year, a significant increase was observed in the underemployment rate to 18.5% from its year-ago level of 15.7%. This indicates that nearly 1 out of 5 employed persons is looking for more working hours. Underemployment is said to be more pervasive in the rural areas where "farm work is irregular and seasonal and off farm employment opportunities are few and far between."³

Another cause for concern is that while employment has been increasing in services, most of these jobs are in the relatively vulnerable and low-productivity subsectors. Retail trade has the highest share of employment among the services subsectors and this includes the salesladies, the variety (*sari-sari*) store owners, as well as the street hawkers and peddlers. In the transport, storage and industry which employs 7.5% of the total employed, many people are employed as drivers of jeepneys, taxicabs, pedicabs and other public conveyances. In the community, social and personal services

³ Herrin and Pernia (2003)

subsector, there are small service providers such as beauticians, laundrywomen and domestic helpers. Their tenures are often insecure, wages are uncertain and social protection is usually absent. Thus, another policy challenge is how to widen the scope of social security coverage for these workers.

Table 8. Employment by Class of Worker
April 2003-2004

Class of Workers	April 2003		April 2004	
	(in '000)	(in %)	(in '000)	(in %)
Total Employed	30,420	100	31,520	100
Wage & salary workers	14,640	48.1	16,020	50.8
Own-account workers	11,650	38.3	11,700	37.1
Unpaid family workers	4,130	13.6	3,750	11.9

Source: NSO

The failure of both agriculture and industry to absorb labor due to their dismal growth performance, the capital-intensive nature of industrialization as well as the inward-looking trade policies in the past, have all been factors why services is now the biggest absorber of labor and also the major driver of growth.

The structure of the economy has consequently failed to develop industries that will offer opportunities for the highly skilled workers. Hence, it is not surprising why among the major occupation groups, laborers and unskilled workers comprise 31.5% of the employed while the share of the professionals, technicians and associate professionals group remains at pitiful proportions.

If there is a redeeming feature in the April survey results this year, it is the marked reduction in the share of the unpaid family workers from 13.6% to 11.9% and the increased share of the wage and salary workers from 48.1% to 50.8% compared to a year ago. This is a positive development because wage workers generally receive more benefits and are better protected by labor laws than own-account and unpaid family workers. Nonetheless, it should be noted that the share of own-account workers, which include the self-employed still remains at more than 1/3 of the employed people.

Table 9. Employment by Major Occupation Group
April 2003-2004

Major Occupation Group	April '2003		April '2004	
	(in '000)	(in %)	(in '000)	(in %)
Total employed	30,418	100	31,520	100
Officials of government and special Interest organizations, corporate executives, managers, managing proprietors, and supervisors	3,287	10.8	3,911	12.4
Professionals	1,368	4.5	1,326	4.2
Technicians and associate professionals	910	3	878	2.8
Clerks	1,337	4.4	1,329	4.2
Service workers and shop and market sales workers	2,547	8.4	2,931	9.3
Farmers, forestry workers, and fishermen	6,199	20.4	5,718	18.1
Trades and related workers	3,012	9.9	2,906	9.2
Plant and machine operators and assemblers	2,343	7.7	2,411	7.6
Laborers and unskilled workers	9,275	30.5	9,941	31.5
Special occupations	140	0.5	169	0.5

Source: NSO

Can we wipe out unemployment in the next six years?

In her recent State of the Nation Address, President Gloria Macapagal-Arroyo identified job generation as one of her administration's five key reform packages. The government is targeting to generate 6 to 10 million jobs in the next six years by tripling the loans for small business (from one million to 3 million micro, small and medium enterprises) and developing two million hectares of agribusiness land. The strategies hold much promise as SMEs currently generate 70% of total employment and contribute 32% to total GDP.⁴ Improving their access to financing and addressing the various challenges they face in the areas of human resource development, technology and R&D will certainly go far in creating jobs. Focusing on agribusiness to maximize job creation is likewise appropriate since in 2002, 39% of the unemployed were in the rural areas. It also costs much less to create one job in agriculture (P8,900) compared to more than P1 million to create a job in industry.⁵

⁴Current Situation of SMEs and the SME Development Plan, Department of Trade and Industry, May 2004

⁵ "A new look at job creation," Ernesto M. Ordoñez, *Philippine Daily Inquirer*

The government, however, must strive to achieve the higher end of its targets if it really wants to make a dent on the unemployment rate. The following scenarios explain why.

Assuming that the labor force continues to grow at 2.9%, generating merely one million jobs a year will keep the unemployment rate at a double-digit figure of 10.9%. But if it grows at a more rapid pace of 3.8% like it had in the last three years, then the one-million-job target would even raise the unemployment rate to 16.2% by 2010.

Table 10. Projected Unemployment Rate by 2010

Employment indicator	Projections for 2010			
<i>Assumptions:</i>				
<i>number of jobs generated per year</i>	<i>1 million</i>		<i>1.67 million</i>	
<i>labor force growth (%)</i>	2.9	3.8	2.9	3.8
Labor Force Level ('000)	42,223	44,885	42,223	44,885
Unemployment Level ('000)	4,595	7,257	-74	2,588
Unemployment Rate (%)	10.9	16.2	-0.2	5.8

Note: Author's computations

If 1.67 million jobs a year were generated, given a 3.8% growth in the labor force, this will significantly bring down the number of unemployed to 2.6 million people or a 5.8% unemployment rate. The picture gets even better if the labor force growth were kept at only 2.9% because the economy will be able to absorb all of its workforce come 2010.

The other part of the story, of course, is whether the government is capable of achieving the 10-million target.

If past employment data were any indication, then the odds are the government would find it difficult to generate one million jobs a year. While the Arroyo administration succeeded in achieving an average of 1.1 million jobs in the last three years, a closer look will reveal that this average may simply have been pulled up by the unusually high job increase in 2001. (See Table 4) The 1.7 million jobs recorded in the said year may just be a restoration of the disproportionate

number of jobs lost in 2000 when another political and economic crisis gripped the country. In fact, in a span of 10 years, there were only two other instances when jobs generated went over the one million mark. Moreover, even in periods of relatively high economic growth, jobs generated remain insufficient. Between 1986 to 1989, when annual GDP growth rate averaged at 5.17%, no more than an average of 943,000 jobs were created annually. The same is true between 1994 to 1997 when average annual GDP growth was 5.02% and only an average of 833,000 jobs were produced every year. Clearly, the economy must grow at a much higher rate to meet the government's employment targets.

In summary,

High labor supply and the insufficiency of jobs are the two principal reasons for the poor employment performance of the country. Hence, if the government wants to address the escalating problem of joblessness, it must also attack these two areas. The growth of the labor supply can be tamed by an effective population management strategy and by ensuring that the youth are kept in schools. High and sustainable growth performance and a stable investment environment will encourage job generation.

The challenge, however, is not simply generating more jobs but also securing favorable terms of employment for workers. Investments in quality education and skills training will make individuals more productive and will preclude them from settling for marginal, low-paying jobs. The economy, on the other hand, should ensure that there are opportunities for the skilled and productive individuals. Direct interventions that will facilitate the exchange of labor market information and reduce costs between job seekers and employers, here, and abroad, must be implemented. Effecting a balance in the development levels across all regions of the country must also be pursued. This will help

narrow down the disparities not only in employment opportunities but also in the people's access to productive resources and social services.

In addition, it may be worthwhile to look into the "Human Capital in the Emerging Economy," an important document prepared by the Congressional Commission on Labor in 2001. The report exhaustively discussed the challenges faced by the labor sector and one of its major

recommendations is the amendment of the Labor Code to make it more attuned to the current trends in the labor market. The proposed amendments cover wages, labor disputes, union activities, collective bargaining agreements and job security, particularly the issue of contractualization. These proposals have elicited varying reactions from different sectors. Thus, a framework by which the reforms should be made is a good subject for further study.

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