

Is federalism the answer?
**The experience of decentralization through
regional wage fixing**

by Maragtas S.V. Amante
CenPEG Fellow & Professor, UP School of Labor and Industrial Relations

Summary

Aside from the decentralization of powers under the Local Government Code (RA7160, 1991) tripartism in regional wage fixing in the Philippines is a preview of the probable success or failure of federalism. There are other experiences of decentralization through the Autonomous Region of Muslim Mindanao (ARMM) (RA6734, 1989; RA9054, 2001) and the Cordillera Autonomous Region (CAR) (RA8438, 1997; RA6766, 1989). In 2016, regional Gross Domestic Product (GDP) — an indicator of productivity — in ARMM is 6% compared to Metro Manila. CAR's regional GDP is 31% compared to Metro Manila.

Tripartism is a state policy in the Philippine Labor Code (Art. 275, PD442, 1974), featuring social dialogue and participation in decision making with representatives from employers, workers and the government. Tripartism could possibly complement federalism, to achieve equity between the center and the periphery in resource allocation, and the distribution of outputs as well as inputs in the social contract.

Regional wage and productivity boards were mandated by RA6727 (1989) amendments to the Philippine Labor Code (Art. 120 to 124, Presidential Decree 442, 1974). Federalism contends with the strong continuity of social protection in minimum wage policy and jurisprudence which began with Commonwealth Act 103 (1936), mandating the Court of Industrial Relations to review and fix minimum wages through tripartism, and ILO wage conventions incorporated into Philippine social policy and labor laws.

The regional minimum wage fixing mechanism could be a preview of federalism versus tripartism in interest representation between employers, workers organizations and government in decision making in the labor economy. Regional variations on productivity, minimum wages, employment, unemployment, and the Consumers Price Index (CPI), illustrate whether or not the policy objectives were achieved. Minimum wage fixing through regional tripartite wage and productivity boards were mandated by RA6727 in 1989, which amended the Philippine labor code. Minimum wages take into account variations in the cost of living and productivity, among others, in fixing minimum wages by industry, and in promoting employment.

A simple minimum wage fixing scheme on the envisioned federal system, taking account changes in productivity and the CPI / inflation is proposed as an alternative to the current regional minimum wage and productivity boards.

To be effective, federalism should have **more efficient labor economy policy and governance indicators**, with respect to wages, incomes policy, poverty elimination, income equity (Gini coefficients), GDP growth targets, employment / unemployment with quality decent work.

Outline

1. Proto federalism: ARMM, CAR experience, LGU devolution, decentralization of basic social services, disaster risk management, regional development councils, regional wage boards . . .
2. Mandate of regional wage fixing: proto federalism in tripartite representation / social dialogue? Ratification of ILO Convention 100 on Equal remuneration providing for non-discrimination i.e. equal pay for equal work. Technical conventions on protection of wages, and minimum wages in agriculture. Title II, Articles 120 to 124 provide for RTWPBs.
3. Regional variations in minimum wages — highest in Metro Manila, lowest in ARMM. Unemployment: highest in Metro Manila, lowest in ARMM. Regional productivity (RGDP): highest in Metro Manila, lowest in ARMM: Gini coefficient: no significant difference in Metro Manila compared to ARMM.
4. Tripartite representation in regional wage boards: “tripartism” vis a vis federalism
 - Workers organizations / union representatives
 - Employer representation
 - Government
5. Desired outcomes versus reality — regional variations in employment, unemployment, and productivity, income distribution — significant variations between Metro Manila (NCR) and areas outside NCR.
6. Proposal: simple federal minimum wage fixing formula
7. Related issues:
 - Article XIII Social Justice provision in the 1987 Constitution vis a vis the PDP Laban draft of the Constitution of the Federal Republic of the Philippines; preferential use of Philippine labor.
 - Statistical system on income accounts, demographics, labor force, family income and expenditures, agriculture, trade, productivity and others — with new federal states, the statistical system need to be re-organized to provide continuity with current data by municipality, city and province.

Annexes

Table 1. Minimum wages by region as of January 2018

Figure 1. Regional GDP 2016;

Figure 2. Gini coefficients 2003 & 2006;

Figure 3. Family income by region

Table 2. Labor force, employment, and unemployment by region 2016

Table 3. Inflation rate by region 2016

Table 4. Regional Gross Domestic Product (RGDP) share by industry.

Table 5. Regional GDP per capita 2016

Table 1.

Guide question: Are minimum wage differentials significant in relation to regional productivity, employment, and inflation?

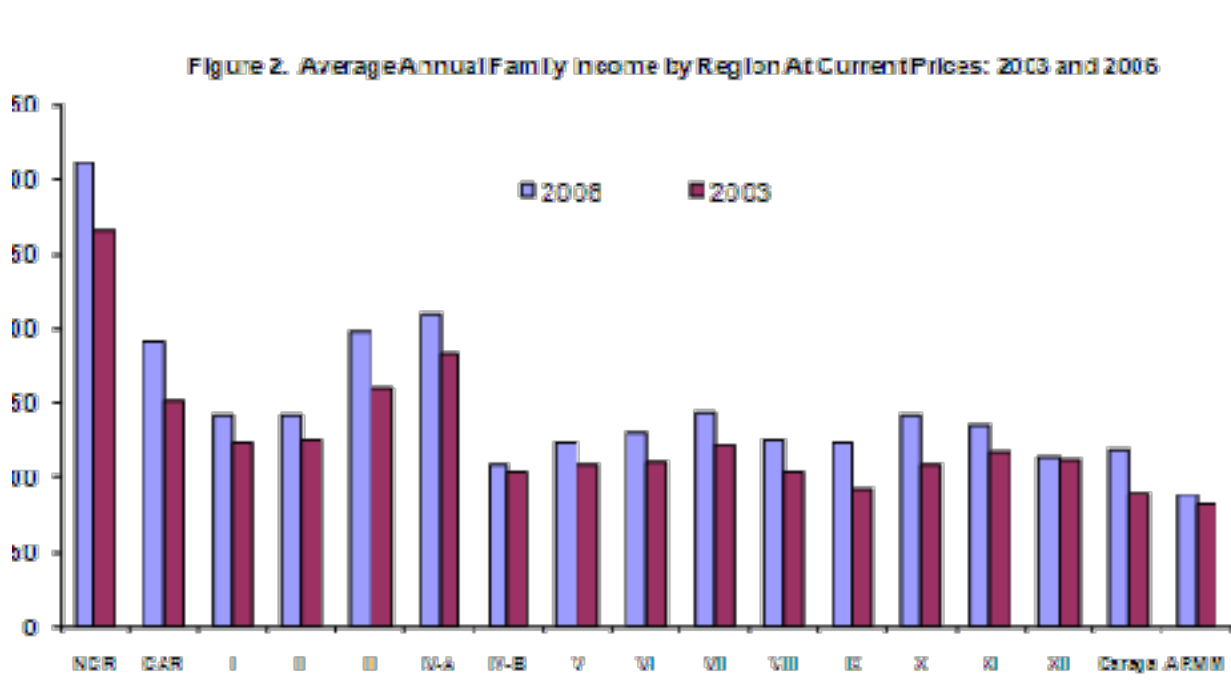
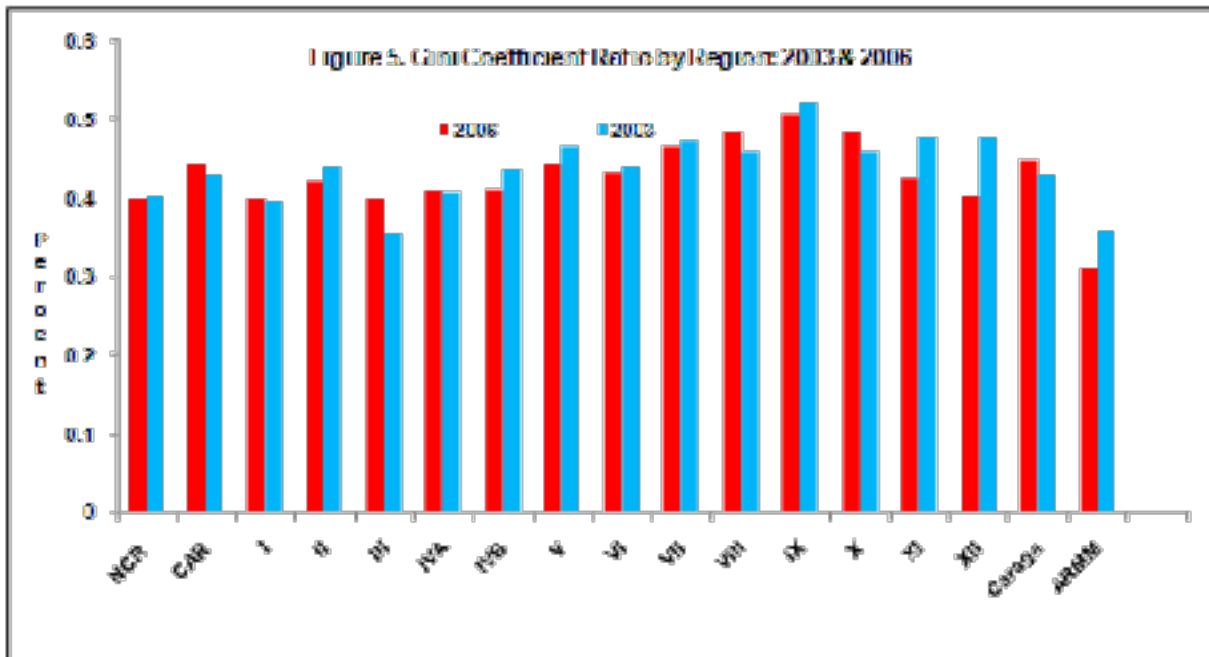
Table 1. Regional minimum wage rates as of January 2018 (PhP) Source: nwpc.dole.gov.ph		Index: Metro Manila industry (highest) minimum wage = 1.00
NCR: Metro Manila	475.00 - 512.00	1.00
CAR: Cordillera	270.00 - 300.00	0.59
Region I: Ilocos	243.00 - 280.00	0.55
Region II: Cagayan Valley	300.00 - 340.00	0.66
Region III: Central Luzon	264.00 - 380.00	0.74
Region IVA: Calabarzon	283.00 - 378.50	0.74
Region IVB: Mimaropa	247.00 - 290.00	0.57
Region V: Bicol	280.00 - 290.00	0.57
Region VI: Western Visayas	271.50 - 323.50	0.63
Region VII: Central Visayas	288.00 - 366.00	0.71
Region VIII: Eastern Visayas	245.00 - 285.00	0.56
Region IX: Zamboanga Peninsula	267.00 - 296.00	0.58
Region X: Northern Mindanao	304.00 - 338.00	0.66
Region XI: Davao	325.00 - 340.00	0.66
Region XII: Soccsksargen	272.00 - 295.00	0.58
Region XIII: Caraga	290.00	0.57
ARMM: Muslim Mindanao	255.00 - 265.00	0.52

Table 2. Population 15+ years old, labor force participation, employment and unemployment (2016)

	Population 15 Years Old and Over	Labor Force Partici- pation Rate	Employ- ment Rate	Unem- ployment Rate	Under em- plov- ment Rate
	(in thou- sands)				
Philippines	68,122	63.4	94.5	5.5	18.3
National Capital Region	8,776	63.1	93.4	6.6	8.8
Cordillera Administrative Region	1,210	65.8	95.5	4.5	22.7
I - Ilocos Region	3,475	61.9	93.7	6.3	17.5
II - Cagayan Valley	2,339	65.5	96.9	3.1	12.7
III - Central Luzon	7,517	62.1	93.4	6.6	16.1
IVA - CALABARZON	9,344	64.2	92.8	7.2	15.5
IVB - MIMAROPA	2,020	65.1	95.8	4.2	21.8
V - Bicol Region	3,940	62.6	95.3	4.7	30.3
VI - Western Visayas	3,686	63.2	95.1	4.9	19.5
VII - Central Visayas	4,378	65.9	94.7	5.3	15.8
VIII- Eastern Visayas	3,049	62.0	95.4	4.6	29.8
IX - Zamboanga Peninsula	2,464	63.7	96.1	3.9	22.4
X - Northern Mindanao	3,174	66.5	94.7	5.3	28.2
XI - Davao Region	3,323	62.9	95.4	4.6	16.5
XII - SOCCSKSARGEN	2,972	64.1	95.8	4.2	24.5
Caraga	1,805	63.2	94.9	5.1	27.8
Autonomous Region in Muslim Mindanao	2,312	53.7	96.4	3.6	13.1
Negros Island Region	3,119	67.8	95.6	4.4	14.8

Source: Philippine Statistics Authority (PSA) Labor Force Statistics www.psa.gov.ph

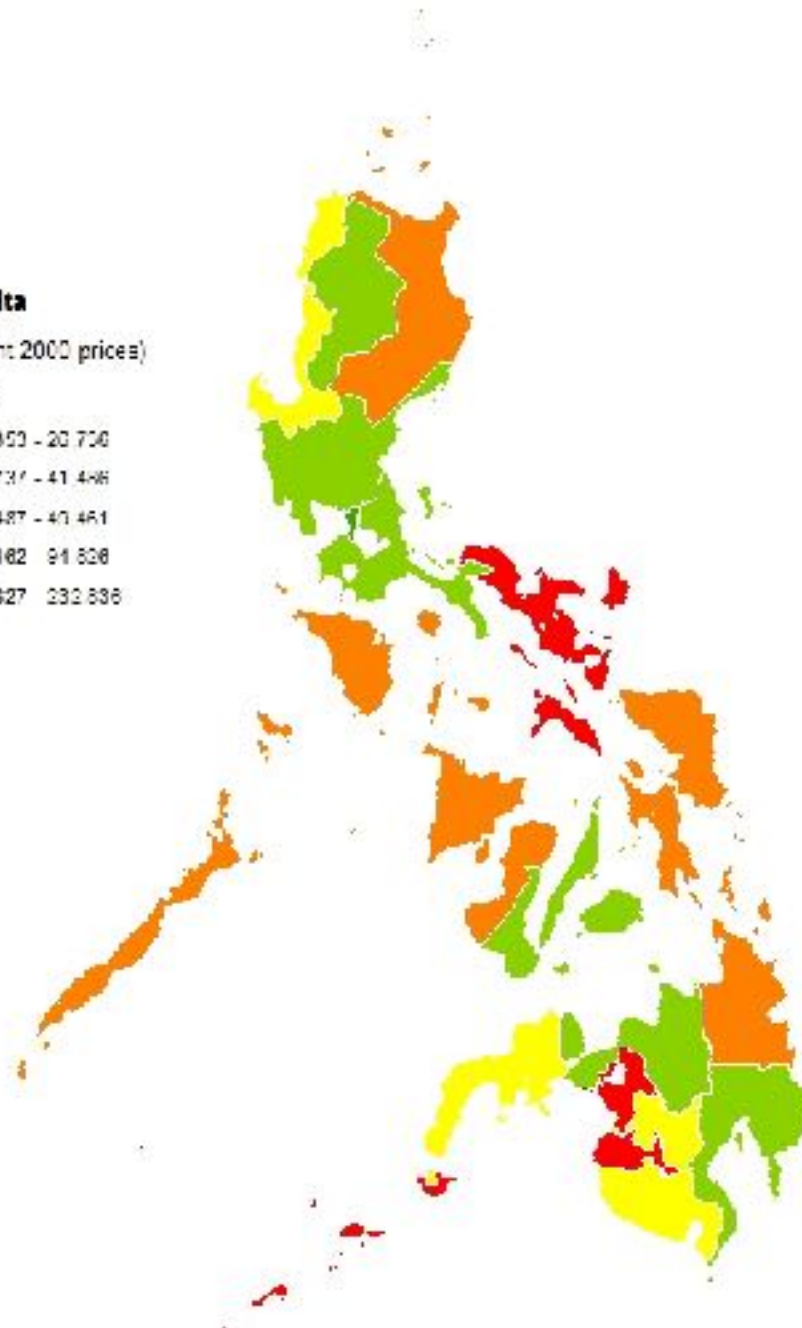
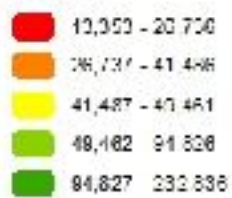
Table 3. Inflation rate between Nov & Dec. 2017 (based on CPI 2006 = 100)	All Items		Food and Non-Alcoholic Beverages	
	Current	Previous	Current	Previous
Philippines	3.3	3.3	3.5	3.2
NCR- National Capital Region	4.6	4.9	4.0	3.9
Areas Outside NCR	2.9	2.8	3.4	3.0
Regions:				
CAR - Cordillera Administrative Region	1.8	1.6	1.1	0.5
I - Ilocos Region	2.0	1.8	2.5	1.9
II - Cagayan Valley	2.2	1.6	1.5	-0.2
III - Central Luzon	1.9	2.0	2.5	2.1
IV-A - CALABARZON	2.9	3.2	2.9	3.0
IV-B - MIMAROPA	2.2	2.2	2.2	1.8
V - Bicol Region	4.0	4.0	5.0	5.0
VI - Western Visayas	2.1	2.2	2.9	3.0
VII - Central Visayas	3.0	3.0	3.7	3.4
VIII - Eastern Visayas	4.0	4.2 r	4.0	4.3
IX - Zamboanga Peninsula	2.9	2.8	3.2	2.6
X - Northern Mindanao	4.0	4.0	4.4	3.4
XI - Davao Region	4.1	4.1	5.1	4.7
XII - SOCCSKSARGEN	3.1	2.2	4.1	3.0
XIII - Caraga	2.3	2.4	3.1	3.0
ARMM - Autonomous Region in Muslim Mindanao	5.3	5.4	6.9	6.9



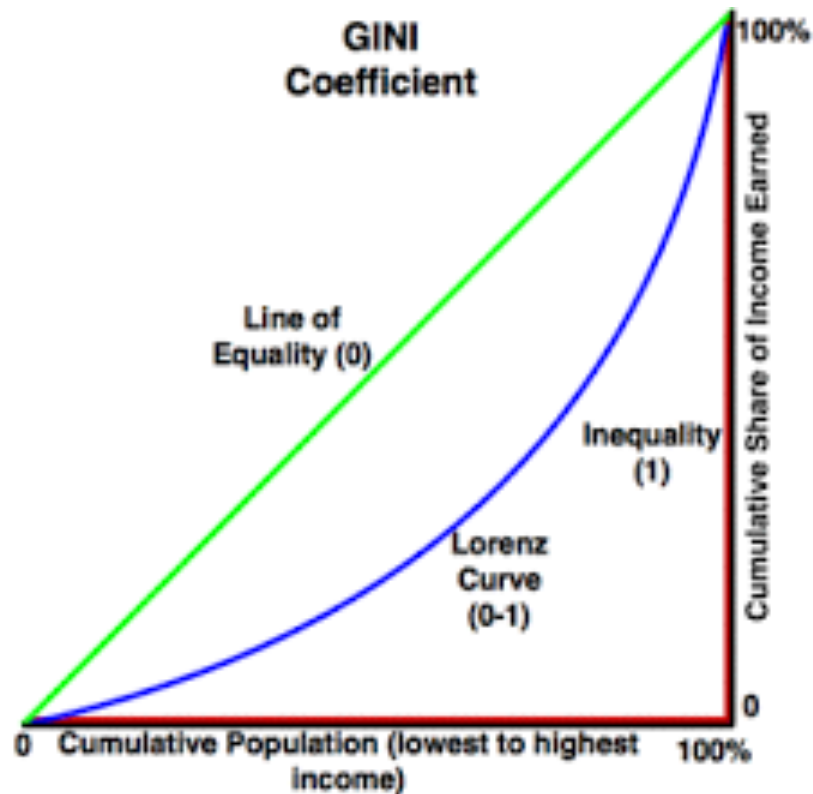
2016 Gross Regional Domestic Product

Per Capita
In Pesos
(at constant 2000 prices)

Legend:



Source: Philippine Statistics Authority



The graph shows that the Gini coefficient is equal to the area marked *A* divided by the sum of the areas marked *A* and *B*, that is, $Gini = A / (A + B)$. It is also equal to $2A$ and to $1 - 2B$ due to the fact that $A + B = 0.5$ (since the axes scale from 0 to 1).

Gini coefficient: a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measure of inequality.

A sample of the latest Gini coefficients: South Korea = 0.234, Denmark = 0.416, US = 0.486, Japan = 0.462. South Africa: 0.634. Philippines: 0.43 (2012). World average in 2013: 0.371

Reference: World Bank (2016). Taking on inequality. Poverty and shared prosperity 2016. Washington DC: World Bank Group.

References

Philippine Labor Code (PD442, 1975) as amended

PRESIDENTIAL DECREE No. 442

As Amended By *Presidential Decrees Nos. 570-A, 626, 643, 823, 819, 856-A, 891, 1367, 1368, 1391, 1412, 1641, 1691, 1692, 1693, 1920, 1921 Mga Batas Pambansa Blg. 32, 70, 130 and 227 Executive Orders Nos. 47, 111, 126, 179, 180, 203, 247, 251, 252, 307 and Republic Acts Nos. 6640, 6657, 6715, 6725 and 6727*

A DECREE INSTITUTING A LABOR CODE, THEREBY REVISING AND CONSOLIDATING LABOR AND SOCIAL LAWS TO AFFORD PROTECTION TO LABOR, PROMOTE EMPLOYMENT AND HUMAN RESOURCES DEVELOPMENT AND ENSURE INDUSTRIAL PEACE BASED ON SOCIAL JUSTICE.

Title II
Wages

Chapter 5 WAGE STUDIES, WAGE AGREEMENTS AND WAGE DETERMINATION

.....

Article 122. *Creation of Regional Tripartite Wages and Productivity Boards.* There is hereby created Regional Tripartite Wages and Productivity Boards, hereinafter referred to as Regional Boards in all regions, including autonomous regions as may be established by law.

.....

Each Regional Board shall be composed of the Regional Director of the Department of Labor and Employment as chairman, **the Regional Directors of the National Economic and Development Authority and Department of Trade and Industry as vice-chairman and two (2) members each from workers and employers sectors who shall be appointed by the President of the Philippines**, upon recommendation of the Secretary of Labor and Employment, to be made on the basis of the list of nominees submitted by the workers and employers sectors, respectively, and who shall serve for a term of five (5) years. Each Regional Board to be headed by its chairman shall be assisted by a Secretariat. (As amended by RA 6727)

Article 124. Standards/Criteria for Minimum Wage Fixing. The regional minimum wages to be established by the Regional Board shall be as nearly adequate as is economically feasible to maintain the minimum standards of living necessary for the health, efficiency and general well-being of the employees within the framework of the national economic and social development program. In the determination of such regional minimum wages, the Regional Board shall, among other relevant factors, consider the following:

- (a) The demand for living wages;
- (b) Wage adjustment vis-a-vis the consumer price index;
- (c) The cost of living and changes or increases therein;
- (d) The needs of workers and their families;
- (e) The need to induce industries to invest in the countryside
- (f) Improvements in standards of living;
- (g) The prevailing wage levels;
- (h) Fair return of the capital invested and capacity to pay of employers;
- (i) Effects in employment generation and family income; and
- (j) The equitable distribution of income and wealth along the imperatives of economic and social development.

.....

Book Five
LABOR RELATIONS
Title I
Policy and Definitions
Chapter 1
POLICY

Article 211. *Declaration of policy.* A. It is the policy of the State:

(a) To promote and emphasize the primacy of free collective bargaining and negotiations, including voluntary arbitration, mediation and conciliation, as modes of setting labor or industrial disputes;

(b) To promote free trade unionism as an instrument for the enhancement of democracy and the promotion of social justice and development;

(c) To foster the free and voluntary organization of a strong and united labor movement;

.....

Title IX
Special Provisions

Article 275. Tripartism and tripartite conferences. (a) Tripartism in labor relations is hereby declared a State policy. Towards this end, workers and employers shall, as far as practicable, be represented in decision and policy-making bodies of the government.

(b) The Secretary of Labor and Employment or his duly authorized representatives may from time to time call a national, regional, or industrial tripartite conference of representatives of government, workers and employers for the consideration and adoption of voluntary codes of principles designed to promote industrial peace based on social justice or to align labor movement relations with established priorities in economic and social development. In calling such conference, the Secretary of Labor and Employment may consult with accredited representatives of workers and employers. (As amended by RA 6715)

Republic Act No. 7160 **October 10, 1991**
Section 41(b) Amended by RA 8553
Section 43 Amended by RA 8553

AN ACT PROVIDING FOR A LOCAL GOVERNMENT CODE OF 1991

<http://www.officialgazette.gov.ph/1991/10/10/republic-act-no-7160/>

(e) National agencies or offices concerned shall devolve to local government units the responsibility for the provision of basic services and facilities enumerated in this Section within six (6) months after the effectivity of this Code.

As used in this Code, the term "devolution" refers to the act by which the national government confers power and authority upon the various local government units to perform specific functions and responsibilities.

BOOK I
GENERAL PROVISIONS
TITLE I
BASIC PRINCIPLES
CHAPTER I

The Code: Policy and Application

Section 1. Title. - This Act shall be known and cited as the "*Local Government Code of 1991*".

Section 2. Declaration of Policy. -

(a) It is hereby declared the policy of the State that the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals. Toward this end, the State shall provide for a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units shall be given more powers, authority, responsibilities, and resources. The process of decentralization shall proceed from the national government to the local government units.

(b) It is also the policy of the State to ensure the accountability of local government units through the institution of effective mechanisms of recall, initiative and referendum.

Section 3. Operative Principles of Decentralization. - The formulation and implementation of policies and measures on local autonomy shall be guided by the following operative principles:

(a) There shall be an effective allocation among the different local government units of their respective powers, functions, responsibilities, and resources;

(d) The vesting of duty, responsibility, and accountability in local government units shall be accompanied with provision for reasonably adequate resources to discharge their powers and effectively carry out their functions: hence, they shall have the power to create and broaden their own sources of revenue and the right to a just share in national taxes and an equitable share in the proceeds of the utilization and development of the national wealth within their respective areas;

(f) Local government units may group themselves, consolidate or coordinate their efforts, services, and resources commonly beneficial to them;

(g) The capabilities of local government units, especially the municipalities and barangays, shall be enhanced by providing them with opportunities to participate actively in the implementation of national programs and projects;

(h) There shall be a continuing mechanism to enhance local autonomy not only by legislative enabling acts but also by administrative and organizational reforms;

(i) Local government units shall share with the national government the responsibility in the management and maintenance of ecological balance within their territorial jurisdiction, subject to the provisions of this Code and national policies;

(j) Effective mechanisms for ensuring the accountability of local government units to their respective constituents shall be strengthened in order to upgrade continually the quality of local leadership;

(k) The realization of local autonomy shall be facilitated through improved coordination of national government policies and programs an extension of adequate technical and material assistance to less developed and deserving local government units;

(l) The participation of the private sector in local governance, particularly in the delivery of basic services, shall be encouraged to ensure the viability of local autonomy as an alternative strategy for sustainable development; and

(m) The national government shall ensure that decentralization contributes to the continuing improvement of the performance of local government units and the quality of community life.
