

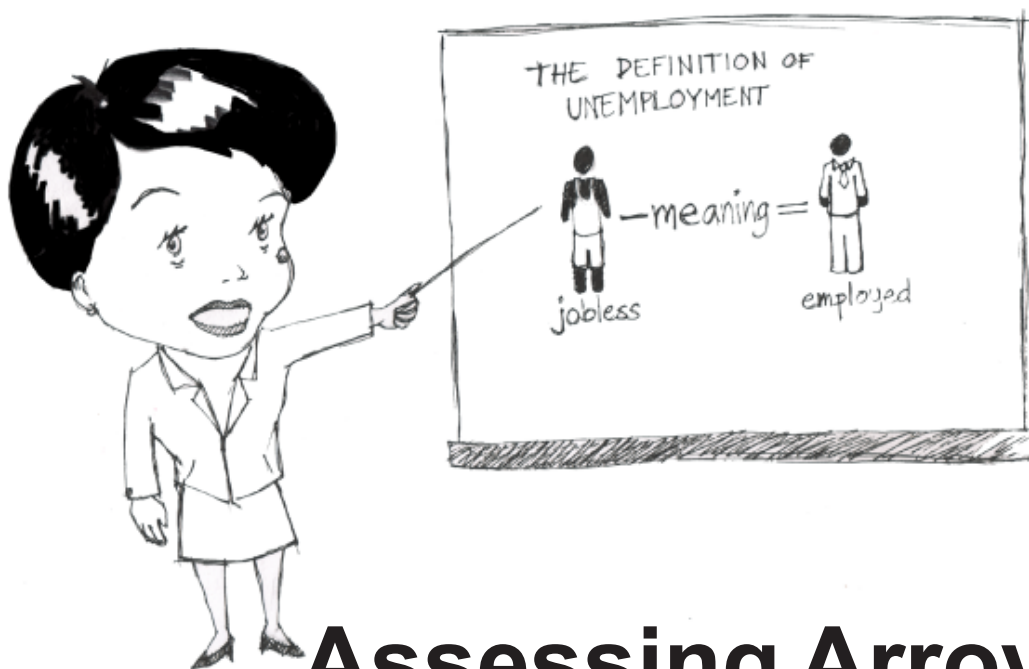


LEARN

VOL II NO.6

LABOR TRENDS

June 2006



Assessing Arroyo's job performance

Two years since Gloria Macapagal Arroyo vowed to step up job creation, the jobs crisis has turned for the worse. In June 2004, Arroyo pledged to generate 10 million jobs in six years. She was applauded for getting her priorities right and for putting forward a measurable target by which to judge her administration's performance. The numbers for the last two years, however, show very poor performance.

Job creation has been weak on account of lackluster and low-quality economic growth. Actual job creation was only half of what is needed to reach the government target. Unemployment is slightly down from its peak in 2004, but remains at relatively high levels.

A fairly recent trend is surging underemployment. Total underemployment began rising sharply in April 2005. Invisible underemployment stopped rising in April this year, but visible underemployment continues to go up and is now at its highest level in 20 years.

Rising underemployment is important because it may indicate growing poverty incidence. Poor families are likely to be found among the underemployed more than among the unemployed simply because they cannot afford to be unemployed.

Today, there are 12 million unemployed and underemployed Filipinos, up 2 million in the last two years. On top of this, the working age population grows by around 1.3 million every year. The challenge of creating adequate employment has never been greater.

Slow job creation

Ironically, job creation slowed not long after Arroyo delivered her 10-million jobs promise. The best times in her administration in terms of job growth was the period October 2003-July 2004 when net job creation (defined as the change in the number of employed persons over a 12 month period) averaged 1.25 million. From thereon, job creation declined to 650,000 during October 2004-April 2006.

In April 2006, the economy generated some 800,000 net new jobs. This brings to 780,000 the average net job creation for the first two quarters of the year, not much higher than the 700,000 net job creation for 2005.

The slowdown in the pace of job creation since October 2004 can be traced to lackluster economic growth. GDP growth averaged 5% during October 2004-January 2006. By comparison GDP growth was 6% during October

Fig. 1. Job creation, 2001-2006

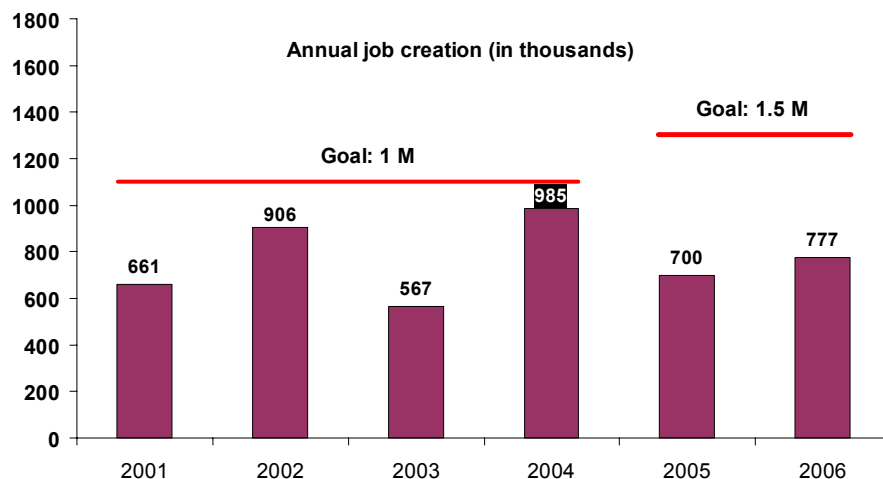
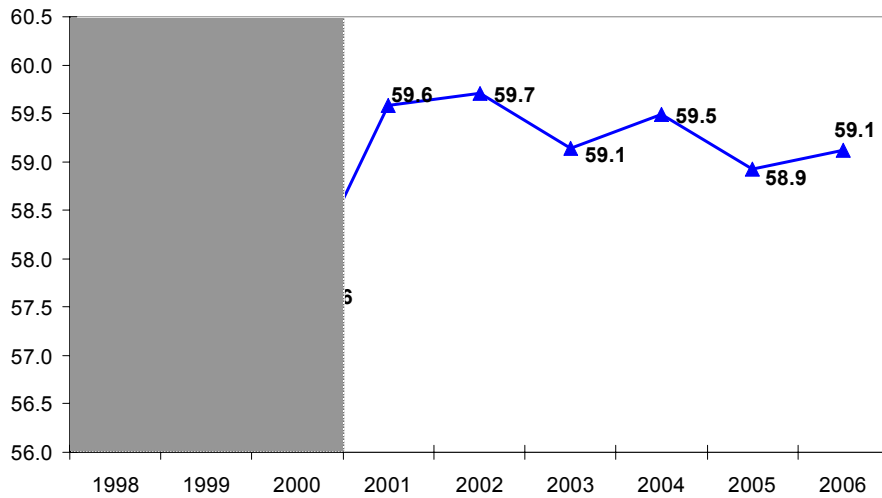


Fig. 2. Employed-to-population ratio



2003-July 2004 when employment growth was at its fastest pace under the Arroyo administration.

To meet the government target of 1.5 million new jobs per year, GDP growth must be in the range of 7-8%. Not surprisingly, actual employment creation has been only half of the government target.

In fact, the Arroyo administration has consistently failed to meet its job creation targets. (See Fig 1) Job creation averaged 780,000 in its first four years. The number slightly dropped to 750,000 in the last 18 months.

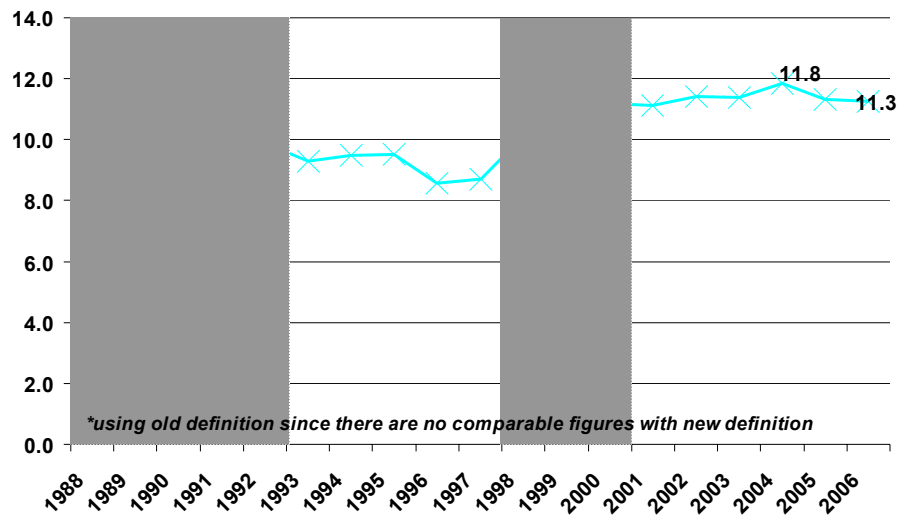
Weak employment creation has meant fewer job opportunities for a rapidly growing population. The employed-to-population ratio declined to 591 per 1,000 people in the first half of 2006 from 596 in 2004. (See Fig 2) The decline translates to some 1.2 million people added to the non-active population. This ratio shows no significant improvement over the long-term.

Near-record unemployment

The unemployment rate held steady at 11.3% in the first two quarters of 2006 same as in 2005, but lower than the 11.8% recorded in 2004. (See Fig 3) This brings the number of jobless workers to over 4.1 million in 2006, slightly lower than the 4.2 million in 2004.

It should be noted, however, that the slightly lower unemployment rate in recent quarters has been accompanied

Fig. 3. Unemployment rate, 1988-2006



by lower labor force participation rate (LFPR). The LFPR has declined from 67.5% in 2004 to 67% in 2005 and further down to 66.6% in the first half of 2006. This means that unemployment went down partly because many people left or did not join the labor force thus were not counted among the unemployed. In other words, the lower unemployment rate underestimates joblessness: a significant level of *hidden* unemployment exists outside the officially defined labor force.

The lower unemployment cum lower LFPR since 2005 is a mirror image of the situation in 2000 to 2004 when rising unemployment was accompanied by increasing labor force participation. On this basis, high unemployment since 2000 has been blamed on more people joining the labor force than before. It has less to do, according to this view,

	1992-1997	2000-2005
Labor force participation rate (LFPR)	66.0	66.8
Unemployment rate (UR)	9.2	12.7
Unemployment per percentage point of LFPR	0.14	0.19

with the declining ability of the economy to generate employment.

A simple way to test this view is to calculate the unemployment rate per percentage point of the labor force

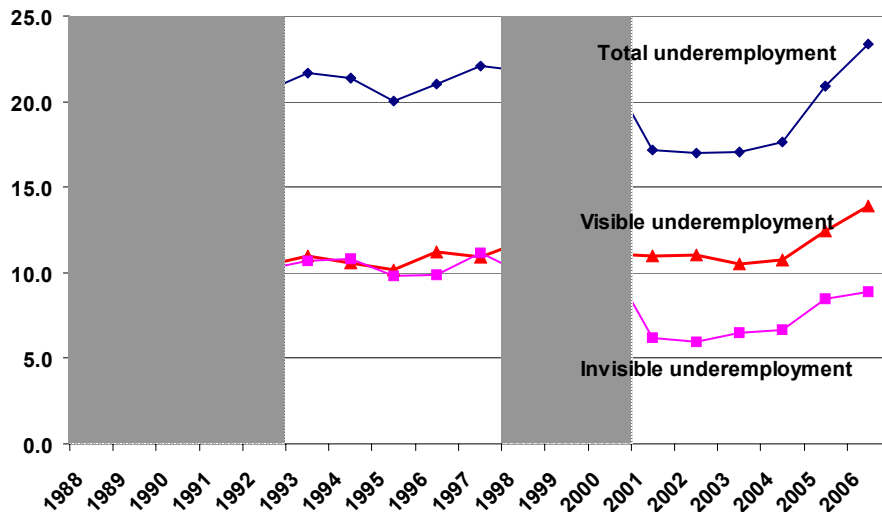
participation rate over comparable periods. During the period 2000-2005, a period marked by economic growth, each percentage point of labor force participation rate resulted in 0.19% unemployment. The comparable figure for the period 1992-1997, also a period of recovery, was 0.14%.

In other words, each percentage point of labor force participation rate resulted in higher unemployment since 2000 than in the 1990s. Take the labor force participation rate of 67% in 2005. In the 1990s, that would have resulted in a 9.4% unemployment rate, compared with the actual unemployment rate of 11.3% in 2005.

Note that the average labor force participation rate in the 2000s was 66.8%, not significantly higher than the 66% recorded in the 1990s. That is, the much higher unemployment rate of 11.4% in recent years compared with the 9.2% in the 1990s cannot be attributed to higher labor force participation rate. The problem then is found in the declining ability of the economy to generate adequate employment for a growing the labor force.

(The above discussion of the unemployment rate is based on the old official definition of unemployment. The figure based on the new definition which the government adopted since April 2005 is much lower at 8.3%. Using the new definition, there are 2.9 million jobless Filipinos as of April, 1.3 million less than the old definition. The problem is that there are no comparable figures before April 2005 so it is

Fig 4. Total, visible, and invisible underemployment



impossible to know what has been happening to unemployment.)

Remarkably, the current unemployment rate (old definition) remains over a full percentage point above the 10.1% posted in 1998, the last recession year for the economy. Except for the uptick in 2004, unemployment has been by and large stable since 2000 despite sustained economic growth over this period. This is unlike in previous decades when the unemployment rate fell, albeit modestly, with economic recovery.

Underemployment at 20-year high

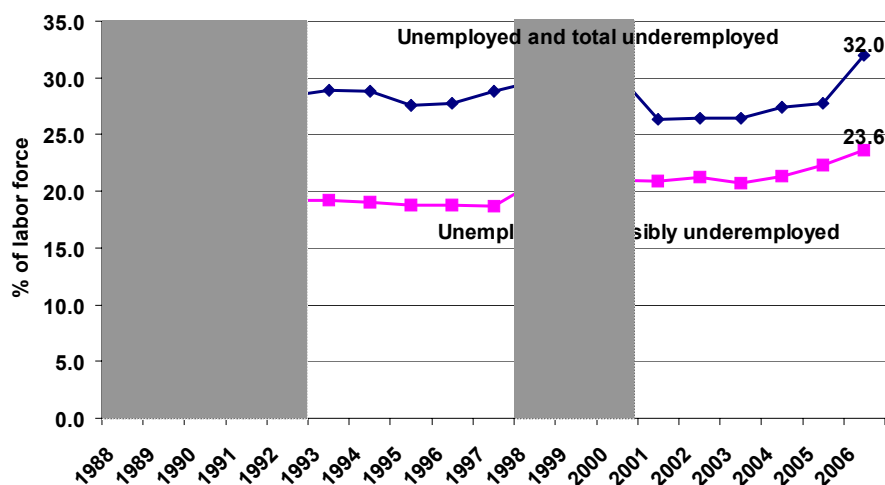
Underemployment has been rising sharply since April 2005, erasing gains made in this area since 2001. Total underemployment went up from 9% in 2004 to 12% in 2005 and 14% in the first half of 2006.

Invisible underemployment, that is, the proportion of *full-time workers* wanting additional work hours, appears to have stabilized to 9.6% in April 2006 compared with 9.8% in the April 2005.

But visible underemployment, the proportion of *part-time workers* wanting additional work hours, remains on the uptrend, hitting a 20-year high in the first half of this year.

Surging underemployment is important because it may indicate rising poverty incidence that is not yet reflected in currently available income statistics. Underemployed workers

Fig. 5. Unemployed and underemployed as % of labor force, 1988-2006



carry a high risk of becoming working poor with incomes insufficient to carry themselves and their families above the poverty threshold.

2M more people looking for work

The number of unemployed and underemployed workers has been rising and continues to rise. Between 2000 and 2004, the increase was driven by the rise in the number of unemployed Filipinos. Since 2005, this has been due to the rapid increase in the number of underemployed workers, while the number of unemployed workers stayed at historically high levels.

	Unemployed	Underemployed	Looking for work	% of labor force
2001	3,653	5,006	8,659	26.4
2002	3,874	5,109	8,983	26.5
2003	3,932	5,215	9,147	26.5
2004	4,249	5,573	9,822	27.4
2005	4,129	6,753	10,882	29.9
2006	4,156	7,648	11,804	32.0

Table 2 shows a consistent rise both in the number of people looking for work and as a percentage of the labor force. Today, there are 12 million unemployed and underemployed workers, up 2 million in less than two years. As a proportion of the labor force, this has gone up from 26.4% in 2001 to 27.4% in 2004. It jumped to 32% in the first half of 2006.

This figure represents the huge backlog in *quality job creation*. On top of this, the working age population grows by around 1.3 million every year, a number that the economy has found difficult to absorb. The urgency of generating adequate employment has never been greater.

Summarizing, three important trends in the labor market can be identified: sustained weak job creation, steadily high unemployment, and since last year, rising underemployment. The last suggests a new and worrying dimension to the current jobs crisis: potentially rising poverty incidence.

The Arroyo administration boasts of presiding over the longest GDP growth streak—seven years and counting—in

the last 25 years (1980-2005). Never mind that growth in the present era is only a shadow of what the economy achieved in the three decades prior to the 1980s. Never mind, too, that GDP growth was interrupted only once in the previous era compared with three times in the last 25 years.

What needs to be pointed out is that the Arroyo administration holds the record for the highest unemployment and underemployment rates, second only towards the end phase of the Marcos administration in the mid-1980s. Back then, the Philippine economy was *shrinking* at about the same rate that it has been growing in the last seven years.

Simply put, the Arroyo administration has presided over the best of times for economic growth (at least in the last quarter of a century) and the worst of times for the Filipino working people in terms of employment opportunities.



LEARN

**FRIEDRICH
EBERT
STIFTUNG**

Labor Trends is published by the Labor Education and Research Network, Inc (LEARN) in cooperation with the Friedrich Ebert Stiftung (FES)--Philippine Office. LEARN is a non-profit organization providing various services to workers: education, research, publications, gender program, solidarity and networking. LEARN is an affiliate of the International Federation of Workers' Education Associations.

Address: 102 Sct de Guia St., Bgy Sacred Heart, Quezon City, Philippines 1103. Email: infomail@learn.org.ph
Website: <http://www.learn.org.ph>