



Republic of the Philippines
House of Representatives
CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT
Quezon City, Metro Manila

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Director-General

MEMORANDUM:

For : The Members of Congress

Subject: The Proposed P125 Wage Increase (House Bill 345 and Senate Bill 2497)

Date : 23 January 2007

Background

1. The Senate Committee on Labor has essentially adopted House Bill 345, which proposes an increase of P125 on the daily wage rate to be implemented over a three-year period—P45 in the first year (retro-active from October 2006), P40 in the second, and another P40 in the third. The Senate, however, amended the effective date of the initial increase to January 2007. The House of Representatives has approved House Bill No. 345 on Third Reading last December 2006.
2. The National Economic and Development Authority earlier warned that it will recommend Presidential veto of the bill because of fears that higher labor costs will discourage investment in the country, decrease job creation and erode the competitiveness of Philippine exports. On the other hand, there are those who believe that the higher consumer demand due to moderately rising wages can serve as an investment stimulus, especially those catering to domestic economy.
3. We wish to suggest in the discussion below that HB 345 need not be recalled or subjected to a Presidential veto if the timeframe of implementation of the wage increases can be stretched to five or six years. In fact, the President can even consider the bill as part of her Administration's commitment to achieving the U.N. Millennium Development Goal of reducing poverty in the country.

Poverty Reduction

4. CPBD staff estimates place the 2007 poverty threshold at roughly P18,000 per person. To stay above this threshold, the average Filipino family of five requires an income of at least P90,000 per year. The national average minimum wage is estimated to be around P221 per day – which comes up to only P68,952 per year, inclusive of the 13th month pay. Thus, to make up for the difference, the average minimum wage needs to rise by 20% or P45 per day – just for the minimum wage earner to cross the poverty threshold.

Cost-Push Impact

5. CPBD Staff projections on the P40-P40-P45 proposed wage increases, using the Input-Output Economic Tables, show that the proposed increases over three years will result in an average yearly increase of 4%-5% on the cost of production of goods and services. This means that H.B. 345 will likely lead to a cost-push inflation impact of anywhere between 4%-5% on top of current 6.3% inflation rate. This assumes that businesses will pass on 100% of the additional wage costs to consumers. The risk of a double-digit inflation should not be ignored.

Suggested Option

6. In mid-2006, the tri-partite NCR Wage and Productivity Board raised the regional minimum wage by P25 without any major economic disruption. It can be suggested that implementation of the P125 proposed increase instead adopt the P25 NCR benchmark, which is to say that the implementation period should be stretched to five years. Based on the same Input-Output analysis above, a P25 per year increase applied over five years will lead to cost of production increases of 2%-2.5% per annum. If employers choose to absorb just one percent of the increase, then the contribution to inflation will even be lower.

Legislated Wages

7. Philippine business groups have become comfortable with the tri-partite system of wage setting in the country and are concerned about the possible re-politicization of wage setting in the country. The bill's proponents, however, have cited similar legislation in the United States, the world's bastion of private enterprise capitalism, where their House of Representatives only recently approved a 41% increase in the federal minimum wage rate from \$5.15 to \$7.25 per hour to be applied in two steps over two years. The Philippine version (HB 345 and SB 2497) will raise workers wages by 54% over three years (or hopefully, over 5 years.)
8. Thus, the notion of legislative wages need not be considered taboo, especially when it complements rather than displaces the work of Regional Wage Boards. Clearly, the national average daily wage has yet to cross the required poverty threshold. Still, the practice of legislating minimum wages should be used sparingly as in the United States where the last wage legislation happened almost ten years ago.

Conclusion

9. H.B. 345 need not be vetoed by the President, if the time frame of its implementation can be amended from three years to five years, thereby increasing the minimum wage by only P25 per year. The resulting cost push impact of the measure will be more tolerable on the part of business and the economy at large.