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## **Labor Union Membership and Minimum Wage in the Philippines**

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**Abstract.** This recent empirical study investigates the effect of labor union membership on minimum wage. After the diagnostic tests to select an appropriate estimation for this panel data, the study estimates the model using pooled-ordinary least square. The result indicates that across the Philippine regions, memberships to labor unions have positive, economically, and statistically significant consequences on the log value of the real minimum wage. It further claims that a one-percentage-point increase in the fraction of employed workers who are members of the labor union creates a 131% increase in the value of the real minimum wage. Other controlled variables that support recent studies are a higher level of education and productivity are positively related to minimum wages, while less than 40 hours work per week negatively associated with minimum wage.

**Keywords.** Labor Union Membership, Minimum Wage, Pooled-OLS

### **Introduction**

Fixing a minimum wage is designed to ensure global competitiveness and protect the subsistence of the lowest-paid workers. This legal policy also shows the salient role of collective action of the government and players of the labor market: workers and employers. Labor unions are a social institution that captures segregated sentiments of the workers forming into a collective stance.

This paper aims to investigate the effect of labor union in setting the minimum wage. This article pursues to contribute to the workforce and human resource literature that surveys the empirical result of collective negotiations on institutions and arrangements. It uses pooled ordinary least squares techniques to examine the effect of membership to labor unions on the minimum wage.

The rest of the paper is arranged into process of setting up minimum wage in the Philippines, and the role labor union in this process, review of related literature, data and methodology, empirical evidence and discussion, and conclusion.

### **Process of Setting Up Minimum Wage in the Philippines**

Under Wage Rationalization Act or Republic Act No. 6727, the state has created a National Wages and Productivity Commission with its Regional Tripartite Wages and Productivity Boards (RTWPB) in all regions in the country “to ensure the decent standard of living for the families; to guarantee the rights of labor to its just share in the fruits of production;

to enhance employment generation in the countryside through industrial dispersal; and to allow business and industry reasonable returns on investment, expansion and growth” trickle within their territorial jurisdiction.

Each Regional Board is composed of the Regional Director of the Department of Labor and Employment (DOLE) as chairman, the Regional Directors of the National Economic and Development Authority (NEDA) and Department of Trade and Industry (DTI) as vice-chairmen, and two (2) members each from the sectors of the workers and employers. The members are appointees by the President of the Philippines, upon the recommendation of the Secretary of Labor and Employment from the list of nominees submitted by the workers and employers’ sectors, respectively. The members will serve for a term of five (5) years.

To effectuate the mandate of RTWPB, Art. 122 has listed that one of its powers and functions is to determine and fix the regional minimum wage. In so doing, Regional Board shall investigate and study all pertinent facts should a Wage Order be issued.

In a separate document of National Wages and Productivity Commission (NWPC), Guidelines No. 01 Series of 2007, it has expounded two procedures in minimum wage fixing. One, the Regional Board may initiate action or motu proprio as directed by the Commission to determine whether a wage order should be issued. Under this procedure, if the conditions in the region, province or industry so warrant, then Regional Board has to conduct public hearings as prescribed in Rule III of NWPC Guidelines. Two, wage fixing by virtue of a petition filed.

In the second procedure, any members from legitimate organization of workers’ and employers’ sector may submit three copies of filled-out form of petition for wage increase. This form contains four details: name(s) and address(es) of the petitioner(s), with signature(s) of the authorized official(s) of their group, reasons for wage increase, amount of wage increase, and area and/or industry covered for the wage increase petition. The Regional Board will evaluate the submitted documents within 15 days from the acceptance of the petition. Once the requirements are complete, the Regional Board shall conduct public hearings.

The notice of the petition or a public hearing shall be at the least published in a newspaper of general circulation in the region or posted in public places as determined by the Regional Board, ensuring that all sectors and interested parties be given the widest opportunities to be heard. The notice includes the name(s), address(es) of the petitioner(s), the subject of the petition, and the date(s), place(s) and the time of the hearing(s). This notice shall be made at least fifteen (15) days before the date of initial hearing, but hearings shall be concluded within forty-five (45) days from the date of the initial hearings except when conditions in the region warrant otherwise.

Hearings are conducted by an authorized committee of the Regional Board with the presence of the representative of each sector: workers and employers. It is also required that at least any of the Vice-Chairman is present. If Board members cannot attend, they may send their representatives.

When petition has opposition, the opposition will submit three (3) copies of filled-out document to the Regional Board containing the following: name(s) and address(es) of the opponent(s), with signature(s) of the authorized official(s) of their group, reasons or grounds for opposing, and the relief pursued. During the hearing with opposition, the petitioner(s) will first present their supporting documents, followed by the opposition(s).

Within thirty (30) days after conclusion of the last hearing, the Regional Board shall decide on the merits of the petition, and where appropriate, issue a wage order establishing the regional minimum wage rates to be paid by employers which shall in no case be lower than the applicable statutory minimum wage rates. The Wage Order may include wages by industry, province or locality as may be deemed necessary by the Regional Board, provided, however,

that such wage rates shall not be lower than the regional minimum wage rates. Once Wage Order is issued, no petition for wage increase shall be entertained within twelve (12) months from its effectivity, except for supervening conditions related to price movements such as magnitude of price increase and the duration of the increase.

When the Commission approved the Wage Order issued by the Regional Board, Wage Order will take effect fifteen (15) days after its publication in at least one (1) newspaper of general circulation in the region. Within 10 days, implementing Rules and Regulation will be submitted for approval to Secretary of Labor and Employment upon recommendation of the Commission. Then within 20 days from the receipt of the recommended Implementing Rules and Regulations, the Secretary of Labor and Employment shall act on it. Once the Secretary of Labor and Employment approved the Implementing Rules and Regulation, the Regional Board shall publish the Implementing Rules and Regulation in at least one (1) newspaper of general circulation in the region.

Table 1 summarizes the process of setting a minimum wage in the Philippines. For emphasis, even at the onset of minimum wage deliberations, workers and employers are represented by their respective organization.

Table 1. Normal Process Flow Chart of Minimum Wage Fixing

Stages	Details	Time Frame
1	Initiation for Minimum Wage Increase (Any) A. Motu Proprio by the Regional Board B. By Virtue of a Petition Filed	
2	Action from the Regional Board	Within 15 calendar days from receipt of a petition
3	Publication of Notice of Petition	At least 15 calendar days before the initial hearing
4	Hearings	Ends within 45 days from the date of initial hearing
5	Issuance of Wage Order	Within 30 days after the conclusion of the last hearing
6	Wage Order Review from the Commission	
7	Publication of the Wage Order	
8	Effectivity of the Wage Order	15 days after Publication
9	Issuance of Implementing Rules and Regulations	Within 10 days from the Publication of the Wage Order
10	Publication of the Implementing Rules and Regulations	20 days after the Secretary of Labor and Employment act on the Implementing Rules and Regulations

### **Labor Union in the Philippines and Minimum Wage**

Bureau of Labor Relations (2015) defines labor organization as “any union or association of employees in the private sector which exists in whole or in part for collective bargaining or of dealing with employers concerning terms and conditions of employment.” Labor unions are either formal or informal sector labor organizations. This study will mainly focus on formal labor organizations that are also known as Enterprise-Based Unions that include Chartered Local, Affiliate, and Independent Unions.

The number of formal labor organizations (i.e., Enterprise-Based Unions) has an average change of 17, 236, which is higher than the year-on-year figure from 2014 to 2016. According to table 2, its main objective to provide a collective bargaining agreement (CBA) has declined, with an average change of 1,132. The year with the highest CBA negotiations is 2014, and the lowest in the year 2018, with 1,227 and 995, respectively. The slight dip of the

CBA negotiations from 2017 to 2018 also affected the decline in the worker's CBA coverage in those periods.

Table 2. Number of union and its various activities in the Philippines, 2014-2018

Particulars	2014	2015	2016	2017	2018	Average Change
Number of Enterprise-Based Unions	16,880	17,066	17,246	17,424	17,562	17,236
Number of Membership	1,426,858	1,438,096	1,478,905	1,543,514	1,543,185	1,486,112
Employed Labor Force	38,837,000	38,741,000	41,684,774	41,546,509	40,649,711	40,291,799
% of Wage and Salary paid Workers Working in Private Establishment	45.0%	45.7%	47.8%	48.6%	50.4%	47.50%
Collective Bargaining Agreement (CBA)	1,227	1,148	1,129	1,159	995	1,132
Worker's Covered in CBA	207,811	190,708	208,879	220,905	186,892	203,039
Unionization Rate	8.16%	8.12%	7.42%	7.64%	7.53%	7.77%

Sources: Bureau of Labor Relations. Accessed from <https://blr.dole.gov.ph/2014/12/11/statistical-reports/>. Labor Force Statistics. Accessed from <https://psa.gov.ph/statistics/survey/labor-and-employment/labor-force-survey>.

The rising number of memberships to enterprise-based unions comes along with the increasing number of wage and salary paid workers working in the private establishment. Membership to formal unions is only applicable to workers employed in private establishments. Despite the steady increase in the number of organized members, the percentage change is slightly small, while the number of employed labor force decline for the past three years; this has resulted in a falling unionization rate. Unionization rate is the percent of employed workers in the private establishment who are members of enterprise-labor unions.

Labor Unions represent employees in the Regional Board, which localized few functions of the National Wages and Productivity Commission (NWPC). Regional Board determines and fixes "minimum wage rates applicable in their regions, provinces or industries therein and to issue the corresponding wage orders, subject to guidelines issued by the Commission" (Labor Code Art. 122b, 2017).

In 2012, the Commission has implemented a two-tier wage system (2TWS) with the support of social partners. This system aims to minimize the unintended consequences of a statutory minimum wage. This policy reform further intends to improve the coverage and promote productivity improvement and gain-sharing (NWPC website). The first tier (TIER 1) follows the mandatory wage rate setting and procedure under RA 6727 (i.e., Wage Rationalization Act), complemented by the second tier (TIER 2), which is voluntary productivity-based pay scheme.

Minimum wage rates are different for agricultural and non-agricultural workers. Regardless of the nature of the economic activity, setting minimum wage the 10 criteria that is categorized into four: the welfare of the workers, capacity to pay of the employers, comparable wages and income, and Philippine economic and development framework, see table 3. RA No

6727 writes that “the regional minimum wages 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 workers within the framework of the national economic and social development programs.”

Minimum wage modifications are proposed through petition or by the RTWPBs’ initiative (i.e., motu proprio). Wage modifications are regularly adjusted at least once a year unless there are interrupting conditions on price movements. Since 1990, more than half percent of the wage orders are issued as an outcome of the proposals from RTWPBs (Cacnio 2017).

Irrespective of how the adjustments are initiated, it follows a particular process, see table 1. It starts when the Board calls for a wage consultation and conducts public hearing with the presence of the representatives of the employees and employers, and government officers in the provinces and cities. Wage Order is issued and take effect 15 days after its complete announcement in at least one broadsheet in the region to disseminate the information.

Modification of wages above the minimum wage will be done through CBA or employee-employer negotiation. In the case of the second-tier, workers’ representative ensures fair and reasonable adjustments are evident in the performance criteria, standards, targets and profit-sharing scheme between workers and employers

Table 3. Standard/Criteria for minimum wage fixing under RA No. 6727

1. Welfare of Workers and Their Families	<ul style="list-style-type: none"> <li>• Demand for living wages</li> <li>• Wage adjustment vis-à-vis the consumer price index</li> <li>• Cost of living and changes therein</li> <li>• Needs of workers and their families</li> <li>• Improvements in standards of living</li> </ul>
2. Capacity to pay of the employers	<ul style="list-style-type: none"> <li>• Fair return on capital invested and capacity to pay of the employers</li> <li>• Productivity</li> </ul>
3. Comparable wages and income	<ul style="list-style-type: none"> <li>• Prevailing wage levels</li> </ul>
4. Framework of the national economic and social development program	<ul style="list-style-type: none"> <li>• Need to induce industries to invest in the countryside</li> <li>• Effects on employment generation and family income</li> <li>• Equitable distribution of income and wealth along the imperatives of economic and social development</li> </ul>

Source:

National Wages and Productivity Commission. Accessed from <https://nwpc.dole.gov.ph/programs-and-services/two-tiered-wage-system/>.

### Review of Related Literature

Minimum wage fixing is a social protection mechanism of the state. According to International Labour Organization (ILO), the purpose of the minimum wage is to give wage earners a just and equitable share from the company’s progress, to sustain workers’ decent living from social and economic vicissitudes, and to promote social justice. Minimum wage systems supplement and reinforce other social and employment policies. It is also one of the measures to tackle income and labor market inequality. With that purpose in mind, ILO suggests to design minimum wage on the principle of full consultation with social partners. Collective bargaining and social dialogues are mechanism to ascertain legitimate needs of both workers and enterprise, with the presence of the government to ensure regulations are complied, and contracts binding.

In the Philippines, under Wage Rationalization Act or Republic Act No. 6727, the state ascertains that wage system in the country is a tripartite dialogue. In each region, the Regional Tripartite Wages and Productivity Boards (RTWPB) facilitates the region's minimum wage. Each RTWPB has representatives from the government, employer and employees. This is challenging for RTWPB is setting up fixed wage it needs to consider the objective of every social partner. For instance, workers view wage as main source of income for family, employers view wage as an indicator of viability of the enterprise and the variable for appropriate return of investment (ROI), while government looks into the critical economic variables such as inflation, employment, economic growth rate, competitiveness and the like.

Consequently, RTWPB needs to abide to the following standard criteria in setting the minimum wage: wage adjustment vis-à-vis the consumer price index; the cost of living and changes or increases therein; the needs of workers and their families; the need to induce industries to invest in the countryside; improvements in standards of living; the prevailing wage levels; fair return of the capital invested and capacity to pay of employers; effects on employment generation and family income; and the equitable distribution of income and wealth along the imperatives of economic and social development. The criteria listed show that wages vary from industry and areas to match the worker's minimum wage and standard of living in the worker's locality.

### **Data and Methodology**

The study has generated a balanced panel data from 2014 to 2018. Data come from government websites, and all are secondary. The subsequent discussion highlights the sources of the data used in the estimation, as well as the methodology employed.

There are five data points, representing the years 2014 to 2018. The smaller data points are due to some variables are not available, as shown in table 4. Some variables in this study only have regional data recently.

Table 4: Availability of Data

Variables	Earliest Year	Accessed from
Nominal wage	1989	DOLE
Consumer Price Index (CPI)	1994	BSP
Union membership	2014	BLR
Employed Person by Highest Grade Completed	2009	PSA
Less than 30 hours	2009	PSA
Gross Regional Domestic Product (GRDP)	2009	PSA

There are 17 regions in the Philippines. Data on wages are obtained from the Department of Labor and Employment (DOLE). Figures on labor force statistics and gross regional domestic product (GRDP) are retrieved from the Philippine Statistics Authority. Statistics on labor unions are taken from the Bureau of Labor Relations (BLR). Information about the consumer price index is sourced from Bangko Sentral ng Pilipinas (BSP).

This study uses panel data with 17 observations and five (5) data points. As a requirement, diagnostic tests were executed. Hausman test indicates Random Effect is appropriate test, however, the researcher further performed the Breusch-Pagan LM test to test whether Random Effect is an apt technique than Pooled-Ordinary Least Squares (OLS), the result shows that Pooled OLS will be pursued. Under Pooled-OLS, the researcher further conducted diagnostic test by using STATA command such as vce (cluster id) to account for



possible autocorrelation, estat vif for quasi-extreme multicollinearity, and estat ovtest for possible model misspecification. After the diagnostic tests to select an appropriate estimation for this panel data, this study estimates the following model using pooled ordinary least square for region  $i$  in year  $t$ :

$$\log(RMW_{it}) = \beta_0 + \beta_1 PU_{it} + \beta_2 PTEL_{it} + \beta_3 PL30hrs_{it} + \beta_4 PCGRDP_{it} + \gamma_i + \zeta_t + \varepsilon_{it}$$

where  $\log(RMW_{it})$  is in logarithmic form of the value of the real minimum wage of workers employed in non-agricultural activities. Values of the real minimum wage is a ratio of the highest nominal wage to consumer price index for the month times 100.  $PU_{it}$  is the variable of interest, a fraction of employed workers in private establishments who are members of labor unions. There are three control variables.  $PTEL_{it}$  is a fraction of employed workers who, at the least, completed college.  $PL30hrs_{it}$  is a fraction of employed workers who are working 30 hours and less per week.  $PCGRDP_{it}$  is a ratio Gross Value Added (GVA) in construction to GRDP. Finally,  $\gamma_i$  and  $\zeta_t$  are region-specific and time-specific effects, respectively and  $\varepsilon_{it}$  as an idiosyncratic shock.

### **Empirical Evidence and Discussion**

Discussion in this section includes the Philippine Labor Code, specifically on the provision of labor protection. The rest of the section talks on labor union/organization, minimum wage law, and result of the OLS estimation.

Philippine Labor Code has declared concrete provisions to protect its workers, but this study will highlight four of them. First, everyone has a similar chance to economic prospects, irrespective of their demographic characteristics, (Art.3) with stipulated working conditions and rest periods for all workers (Art. 83 – 95), as well as a working environment for employees like women, minors, house helpers, home workers, and night workers (Art. 130 - 161). Second, uncertainties in implementing rules and regulations of the Code are resolved in favor of the worker (Art.4). Third, all employed individuals have the right to join and form organizations without intimidation, intended for collective negotiation (Art. 253), to strike and picket, and of employers to lockout (Art. 278b). Fourth, once strike and lockout are concluded, business operation continues without prejudice to workers who exercise their right to self-organization (Art. 278g).

To ensure the labor rights of the workers are upheld, the Department of Labor and Employment has installed Commissions and Bureaus, even at the regional level. In the case of employees' right to self-organization, the Bureau of Labor Relations and the Labor Relations Division in the local offices of the Department of Labor are responsible for sustaining the "right to self-organization and forming, joining or assisting labor organizations of their own choosing for collective bargaining" (Art. 253).

### **Ordinary Least Square Estimation**

Table 5 presents the OLS results. The coefficient of the variable of interest, which is a fraction of employed workers in the private establishment who are members of the labor union, is 1.31; this is positive and statistically significant at a 1% level. The result indicates that a one-percentage-point increase in the proportion of employed workers in private establishments who are members of labor unions increases the value of the real minimum wage by 131%. This figure is also economically significant.

The presence of labor unions has positively affected the setting of the minimum wage, thereby creating inequality between those who are supported by unions against non-organized workers. In the global arena, studies reveal government influence in the labor unions' decision-

making that makes setting minimum wage becomes a political mechanism for electoral success than a democratic exercise (Verner 1999).

From the control variables, the coefficient of a fraction of employed workers who are working no more than 30 hours per week is negative and statistically significant at 5%. The remaining controls are statistically insignificant.

Table 5. Pooled - ordinary least square estimate

Dependent Variable: Log Real Minimum Wage	Coefficient (Robust Standard Errors)
Fraction of employed workers in private establishments who are members of labor unions	1.31*** (0.40)
Fraction of employed workers who at the least completed college	0.29 (0.79)
Fraction of employed workers who are working 30 hours and less a week	-0.44** (0.20)
Gross Value Added (GVA) in construction to GRDP	0.34 (0.82)
R-squared	0.19
Number of observations	85
Number of states	5

\*\* =  $p < 0.05$

\*\*\* =  $p < 0.01$

### Conclusion

This article argues that, across the Philippine regions, a one-percentage-point increase in the proportion of employed workers in private establishments who are members of labor unions increases the value of the real minimum wage by 131%. It uses pooled-ordinary least square after conducting diagnostic tests to verify appropriate estimation for panel data. All signs of the control variables support the discussion on how less than 40 hours of work per week affects the setting of minimum wage negatively, and how the level of education creates wage inequality. On the other hand, it would be an interesting topic for future research to conduct a dynamic model on the effect of union membership and minimum wage to account for lag variables into the model.

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