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Labor Flexibility in the Philippines: Institutions and Wage Inequality (2010-2017)

Flexibilidade do Trabalho nas Filipinas: Instituições e Desigualdade Salarial (2010-2017)

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Resumo

A globalização acentuou as pressões competitivas entre as economias em desenvolvimento, pois a abertura indiscriminada ao comércio e aos fluxos de capital expôs muitos mercados de trabalho a uma maior volatilidade. Nos esforços para atrair investimentos de capital estrangeiro, cumprir programas de ajuste estrutural das instituições financeiras internacionais e promover os interesses das facções dominantes dos capitalistas nacionais, muitas economias em desenvolvimento reconfiguraram as estruturas regulatórias existentes para incorporar arranjos trabalhistas flexíveis que são altamente vulneráveis à precariedade social e econômica. Contratos por tempo determinado e a terceirização de trabalho aprofundaram as desigualdades estruturais nos mercados de trabalho enquanto obstruíam o acesso à negociação coletiva, ao desenvolvimento de habilidades e ao crescimento salarial. Como tal, a prevalência da flexibilidade da mão de obra em muitos países excluiu historicamente os trabalhadores dos ganhos do crescimento econômico.

A institucionalização da flexibilidade de trabalho nas Filipinas demonstra esta exclusão histórica, já que o crescimento do PIB a uma taxa sem precedentes de 6,5% de 2010 a 2017 ocorreu enquanto o mercado de trabalho empregado 30% da força de trabalho em contratos por tempo determinado e a terceirização de trabalho. O estudo traça o desenvolvimento da flexibilidade de trabalho nas Filipinas, examinando as transformações em sua economia política. Em seu período de globalização de 1970 a 2010, a institucionalização da flexibilidade de trabalho nas Filipinas cumpriu três funções: (1) como uma fonte de vantagem competitiva na busca de investimentos de capital estrangeiro em nível nacional, (2) como um regime local de controle da mão de obra para regiões-chave em desenvolvimento em nível subnacional, e (3) como um aparato de ajuste disponível para setores econômicos com demanda de recursos externos.

Para o período de crescimento de 2010 a 2017, o aprofundamento dessas funções é examinado no contexto do crescimento orientado pelos serviços. O estudo demonstra que o aumento do emprego e da produtividade nos setores de serviços com altas taxas de crescimento, ou seja, comércio varejista, processamento de negócios e setores imobiliários, implicou o emprego de mais trabalhadores sob contratos precários por tempo determinado e terceirizados com crescimento salarial persistentemente desigual e estagnado. Assim, o estudo desafia as afirmações neoclássicas e dos novos-institucionalistas de que o crescimento a partir da integração e *upgrading* econômico geralmente se traduzirá em melhores condições de trabalho.

Palavras-chave: Política de trabalho - Filipinas, Globalização - Aspectos sociais - Países em desenvolvimento, Mercado de Trabalho, Desigualdade

Abstract

Globalization intensified competitive pressures among developing economies as indiscriminate openness to trade and capital flows exposed many labor markets to greater volatility. In efforts to attract foreign capital investments, fulfill structural adjustment programs of international financial institutions and promote the interests of dominant factions of domestic capitalists, many developing economies reconfigured existing regulatory frameworks to incorporate flexible labor arrangements which are highly vulnerable to social and economic precarity. Short-term contracts and labor outsourcing have deepened structural inequalities in labor markets while obstructing access to collective bargaining, skills development, and wage growth. As such, the prevalence of labor flexibility in many countries historically excluded workers from the gains of economic growth.

The institutionalization of labor flexibility in the Philippines demonstrates this historical exclusion, as GDP growth at an unprecedented rate of 6.5% from 2010 to 2017 occurred while the labor market employed 30% of the labor force in short-term and outsourced labor contracts. The study traces the development of labor flexibility in the Philippines by examining transformations in its political economy. In its globalization period from 1970 to 2010, the institutionalization of labor flexibility in the Philippines served three functions: (1) as a source of competitive advantage in the quest for foreign capital investments on the national level, (2) as a local labor control regime for key developing regions on the subnational level, and (3) as an available adjustment apparatus for economic sectors with externally-sourced demand.

For the growth period of 2010 to 2017, the further entrenchment of these functions is examined within the context of services-led growth. The study demonstrates that increased employment and productivity in services sectors with high rates of growth, i.e. retail trade, business processing, and real estate sectors entailed the employment of more workers under precarious short-term and outsourced contracts with persistently unequal and stagnant wage growth. Thus, the study challenges neoclassical and new institutionalist claims that growth from integration and economic upgrading will generally translate into better working conditions.

Keywords: Employment policy - Philippines, Globalization - Social aspects - Developing Countries, Labor Market, Inequality

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Introduction

At the onset of globalization in the 1970s, developing countries pursued varying strategies of incorporating local labor markets into the global landscape. In light of intensifying global competition, the organization and regulation of employment relations were subjected to mounting pressures towards flexibilization. Developing countries under the auspices of structural adjustment programs bear these pressures to a greater degree, compelling their governments to adopt labor flexibility as a central component of global integration.

The Philippines is one such economy wherein haphazard market orientation during the country's globalization process coincided with the reorientation of the domestic labor market towards increasing flexibility, particularly through short-term contracts and disguised employment arrangements. Flexibility has since been embedded as a core feature of the Philippine labor market, so much so that in 2016, the Philippines was ranked 3rd in 75 countries in the Contingent Workforce Index (CWI)[1], a guide for international investors put together by a global network of private manpower providers.

In the same year, the Philippine Statistical Authority reported that 30.7% of wage workers in the country are employed on a casual, contractual, or short-term basis. This amounts to at least 8.4 million workers under flexible employment arrangements, or what is locally known as *contractualization*. The study centers on this process of institutionalizing labor flexibility, i.e. the "ability to change the quantity, quality and price of labour inputs to reduce production costs and make output more adjustable to changes in market demand" (Bitonio, 2007, p. 43). In the Philippines, flexibility particularly manifests in "short-term and unprotected temporary hiring arrangements, [consisting] of various forms of flexible job hiring arrangements, such as the outsourcing or subcontracting of work, deployment of agency-hired and third-party-managed workers within the company's work premises, and/or direct hiring of workers under short-term employment contracts" (Ofreneo, 2013, p. 435). A survey conducted by the National Economic and Development Authority revealed that contractualization has generated deep social discontent among the working class. Thus, stricter regulations on flexible employment arrangements emerged as a platform policy in the 2016 national elections and in the 2018 wave of labor strikes in the Philippines (David and Dumdum, 2016; Maggudayao, 2019).

[1]The index measures "relative ease of sourcing, hiring and retaining a contingent workforce in competing labor markets" (ManpowerGroup, 2016, p. 2)

This social clamor is only expected, as many studies documented how flexible labor arrangements in many countries have undermined principles of decent work. Studies of the European labor market after a process of systematically deconstructing the norm of standard employment relationships suggest that greater numerical flexibility leads to higher in-work poverty and labor substitution (Amuedo-Dorantes and Serrano-Padial, 2010; Eichhorst and Marx, 2011), lower productivity and firm-level innovation (Diaz-Mayans and Sanchez, 2004; Zhou, Dekker, and Kleinknecht, 2011). Recent studies on the Global South also provide evidence for the negative social impacts of labor flexibility in Asia and Latin America as these reforms appear to exacerbate structural inequalities, (Cazes and de Laiglesia, 2015; Maurizio, 2019), undermine collective organizing and worker voice (Kuruvilla and Erickson, 2002; Burgess, 2010), and erode long-term security for all workers in the labor market (Hewison and Kalleberg, 2013; Serrano, Marasigan, and Pupos, 2014).

In the Philippines, studies present qualitative evidence of labor flexibility's social effects on unionization, job security, and the overall decline of rights and entitlements under the law (Ofreneo, 2013; Marasigan and Serrano, 2014; Bitonio, 2007). More recently, the prevalence of labor flexibility has been put into question in 2010-2017, when the Philippines sustained an average growth rate of 6.5% due to higher employment, labor productivity, and investment in the industry and services sectors. Despite this development, real wages remained stagnant (World Bank, 2018a; Felipe and Estrada, 2018).

A wide array of empirical studies have explored the effects of globalization's various facets on income inequality, including trade (Hasan and Jandoc, 2010), structural adjustment (Lim and Montes, 2000), and premature deindustrialization (Tuaño and Cruz, 2019). More limited, however, are studies on the effects specifically of flexible employment arrangements on incomes, with the exception of Nguyen, Nguyen-Huu, and Le (2016) who identified a significant gap between wages of permanent and non-regular workers in Asian labor markets, including the Philippines. By focusing solely on the Philippines, this current study aims to explore the structure of this wage gap across subsectors within industry and services, and on the three most developed regions of the country.

Building upon this body of literature on labor flexibility during globalization, the study adopts these research questions: *What explains the institutionalization of labor flexibility in the Philippines' globalization process from 1970 to 2010? What effects does this institutionalized flexibility exert on workers' wages from 2010 to 2017?* The objective of the dissertation is to demonstrate the impact of institutionalized flexibility on wage levels of workers in services during the country's globalization era.

Contrary to the claims of neoclassical labor economics that wage levels are determined primarily by returns to human capital (Becker, 1964) or productivity levels (Kuh, 1967), the evidence suggests that wages in the Philippines are not significantly responsive to higher productivity. The study seeks to provide empirical evidence that the link between wages and productivity in the Philippines is mediated by a highly politicized process of institutionalizing labor flexibility. Expanding on these claims, this study specifically aims:

1. To chronicle the development of labor market institutions towards greater flexibility in employment arrangements;

2. To identify patterns and forms of labor flexibility on the sectoral, regional, and national levels; and

3. To determine the effect of employment under flexible labor arrangements on workers' incomes.

In line with these objectives, I first conduct a literature review on the major theoretical paradigms utilized to study the link between globalization and labor flexibility with particular attention to the Global South. These include the (1) *neoclassical paradigm*, which views the adoption of market reforms and labor flexibility as policy instruments to achieve greater economic effiiency and reduce unemployment, the (2) *new institutionalist paradigm* which frames the discussion of globalization and transformation of employment relations in light of minimizing transaction costs while also highlighting the tension between economic and social upgrading in global value chains, and (3) *institutionalist political economy* which highlights the role of unequal power relations in forming institutions that regulate and maintain flexible employment relations in globalized labor markets. Based on this discussion, the study adopts institutionalist political economy as a broad theoretical framework, recognizing that structural and political factors specific to the Philippine context must be taken into account in the analysis of labor market outcomes. The exploration of these paradigms will be the subject of Chapter 1.

To answer the research questions, the study adopts two methods of inquiry. Chapter 2 explores existing historical accounts and reports on the Philippine economy from 1970 to 2010 in an effort to identify patterns of intersection between modes of development and several forms of flexible labor arrangements. These patterns are used to construct a unified narrative that cuts across processes of institutionalization on the sectoral, subnational, and national labor markets. The study argues that flexibility is embedded in the Philippine labor market since the 1970s because it performs three key functions: (1) a source of *competitive advantage* in the country's orientation towards external sources of capital and demand; (2) a crucial element of *local labor control regimes* which mediate between global capital and particular local contexts to reproduce precarity in local labor markets amidst social pressures to balance employment and decent work; and as an (3) *adjustment apparatus* that firms use to adapt to volatile market demands brought about by globalization upon several economic sectors. Therefore, the prevalence of labor flexibility is tightly linked with the Philippines' externalized development mode. Historical accounts show that changes in formal regulation of labor flexibility are not likely to inhibit its practice due to the continued centrality of external market demand in Philippine development.

After establishing the institutional context where flexible labor arrangements in the Philippines operate, Chapter 3 then estimates the effects of these arrangements on the wage structure from 2010-2017 using descriptive statistics.

Data for these estimates will be drawn from the quarterly *Labor Force Survey* of the Philippine Statistical Authority for two time periods: 2010 and 2017. Due to the unavailability of individual-level data on the several types of flexible employment arrangements (i.e. casual, contractual, seasonal, probationary, and agency-hired workers), the study will be limited only to two categories of employment, namely permanent workers and non-regular workers (whose tenure of employment is less than one calendar year). Since the study is restricted only on the period of 2010-2017, it will also be focusing on the three economic subsectors that meet the criteria of significant growth in output and employment as well as a sizeable proportion of non-regular workers employed. These subsectors within services are (1) Real Estate, Rental and Business Services, (2) Transport, Storage, and Communication, and (3) Wholesale and Retail Trade. Descriptive statistics are used to provide evidence that the wage gap between permanent and non-regular workers increased during the growth period alongside a rise in the share of non-regular employment in the labor force.

The study concludes with a brief exploration of policy alternatives to the existing regulatory framework of labor flexibility in the Philippines. In terms of policy recommendations, this study emphasizes the importance of structural reforms in the country's development policies in order to guarantee that economic development translates into workers' empowerment and reduces inequality within the labor markets. It also contributes to the literature on globalization by providing preliminary evidence that a rapid and deep integration into global capital flows and global value chains does not automatically translate into higher incomes an decent work. In fact, the Philippine growth period demonstrates that institutionalized labor flexibility widens inequalities in the labor market and exposes workers to long-term vulnerability to economic shocks under globalization.

Chapter 1

Theoretical Perspectives on Labor Flexibility and Wage Growth in the Globalization Era

Introduction

As the capitalist world-system underwent transformations in scale, scope, and modes of accumulation since the 1970s, production processes and relationships among social actors therein were also subjected to forces of change. The study focuses on changes in the employment relationship under *globalization*, the latest period of the capitalist world-system which can be described as "a set of processes that embody a transformation in the spatial organization of social relations and transactions, generating transcontinental or interregional flows and networks of activity, interaction, and power" (Held et al., 1999). Since the 1970s, global relations of production have transformed to accommodate a higher degree of trade and capital flows between developed and developing economies, prompting insights that the global economy is either equalizing outcomes among players (Friedman, 2005) or resulting in uneven and unequal development that exacerbate existing inequalities among economies (Boyer and Drache, 1996)

An important dimension of this transformation concerns the realm of labor. As production lines transformed into networks of production across borders, increased international competition and capital flows generated intense pressure for greater flexibility in labor markets. This shift towards flexibility gained traction in response to heightened uncertainty and abrupt changes in the production process. Developing countries that adopted structural adjustment policies towards trade and capital liberalization since the late 1970s were also subjected to a new international division of labor that prompted a restructuring of employment arrangements and labor institutions (Fröbel, Heinrichs, and Kreye, 1980; Boyer and Drache, 1996).

This trend towards labor flexibility has been the subject of debate among three theoretical paradigms aiming to forward an account of the features and effects of flexibility based on a common analytical understanding of the interaction among labor markets, workers, and institutions. These paradigms will be the subject of this chapter, which aims to organize the competing schools of thought into three distinct theoretical paradigms – Neoclassical Labor Economics, New Institutionalism, and Institutionalist Political Economy. Each broad paradigm is classified as such to encompass approaches that share key assumptions, discourses, and methodological approaches on labor flexibility under globalization.

This chapter aims to lay the theoretical groundwork for the dissertation by providing an overview of existing paradigms that seek to explain the profound transformation of labor markets towards flexibility. Since the study focuses on a specific period, i.e. globalization since the 1970s, the discussion centers on theoretical contributions made during this period. The three main sections in the chapter each discuss a paradigm by introducing its core assumptions, followed by its analysis of globalization and theories of labor flexibility. The chapter then concludes with a summary of the three paradigms and the approach taken by the study.

1.1 Neoclassical Labor Economics

The most widespread economic ideas in academic economics and international financial institutions can be attributed to the neoclassical paradigm. While the theoretical tradition was broadly consolidated by the emergence of the marginalist school in the 1870s[1], the neoclassical approach has been subjected to several important developments especially as it regained paradigmatic dominance in the globalization era. These particular developments arose from the need to provide an explanation for the multiple crises of the 1970s, particularly the prolonged stagflation that called into question the mainstream neoclassical synthesis and neo-Keynesian paradigms of labor markets[2].

Two theoretical strands sought to correct what each perceived as the limitations of the existing models. The first of these strands is the New Keynesian school, which relaxed certain assumptions of neoclassical theory to account for market imperfections. While the focus of New Keynesian theory is on macroeconomics, its conceptualization of the labor market has important implications for policy reform. The second is the neoliberal approach, which attributes stagflation to the inordinate distortions created by Keynesian-inspired government intervention and labor market institutions. This approach resolves this perceived excess via an indiscriminate endorsement of free markets and comparative advantage on a global scale. Through international financial institutions that used these ideas as the ideological foundation of structural adjustment programs, this approach exerted tremendous influence on restructuring labor markets of both advanced and developing countries (Greenwald and Stiglitz, 1987; Schmidt, 2011; Block and Somers, 2014).

Although both theories were founded on the three ontological assumptions that unify the neoclassical paradigm, these developments also introduced several adjustments.

The first of these principles describes a naturally-existing market where laws of competition and supply-and-demand coordinate the exchange of goods and services. According to core neoclassical theory, interactions between producers and consumers efficiently determine price and output in a market (Marshall, 1890). These assumptions likewise apply to the market for labor in the classical model. Supposing perfect information and equal market power, neoclassical theory assumes that employers' demand for workers and the workers' supply of labor jointly determine equilibrium wage and output levels to meet a given production function. Under perfectly competitive conditions, workers thus receive a wage equivalent to the value of

[1] *Marginalism* refers to a set of theories forwarded by Jevons (1874) and Walras (1896) that centered economic analysis on utility maximization by rational individuals. The authors supposed that these simultaneous processes of maximization occur on *marginal* terms, i.e. that economic decisions are made in consideration of their incremental benefits from consumption and costs of production.

[2] Neo-Keynesianism and the neoclassical synthesis are a set of theories that reconciled core neoclassical Walrasian principles with the contributions of Keynes (1936) in his *General Theory*. Government intervention was considered instrumental in stabilizing and stimulating economic growth. See Greenwald and Stiglitz (1987).

their marginal contribution to production (Stigler, 1946). Neoclassical foundations suggest that market interactions are negatively impacted by non-market forces such as unions and government regulations on hiring and wages, which tend to create distortions resulting in sub-optimal equilibria (Pigou, 1920).

Nonetheless, later developments were able to incorporate the persistence of these non-market forces into their analysis, albeit arriving in similar policy implications. According to New Keynesian theory, real wage rigidities and coordination failures among economic agents are salient features of labor markets. However, the theory maintains that these rigidities are not structural features of the labor market, and are merely inefficiencies that impede macroeconomic stabilization (Blanchard, 1979). Similarly, neoliberal theory makes the case for minimizing these non-market forces in order to boost competitiveness in a global labor market. Since the 1970s, this has developed into the direction of greater flexibility in the labor market (Leontaridi, 1998; Lawlor, 2012).

Another starting point of neoclassical theories is the assumption that rational agents interact in an optimizing manner to maximize utility. In the labor market, this operates in the labor-leisure choice model, which assumes that the preference of workers to either partake or withhold their employment at a given wage level determines the overall level of production and employment (Becker, 1965; Ehrenberg and Smith, 2017). Without any mediating forces, the approach supposes that workers and firms will jointly determine the equilibrium wage and employment level in order to reconcile the worker's labor-leisure preferences and the employer's preferences for profit maximization. An important analytical corollary of this principle is that *flexibility*, i.e. the ability to adjust wages, work hours, and terms of employment instantly, is an a priori preference of agents in the neoclassical labor market (Standing, 1986). This was reaffirmed by neoliberal economics, which highlights the role of individual characteristics and preferences in determining wages, work hours, and contract length. Inequalities and unemployment were therefore explained by a "skills gap" which could potentially be corrected by *active labor market policies* (Golden, 1996; Hay, 2004). Conversely, New Keynesian theory asserts that utility-maximizing workers and firms may have imperfect information that impedes rational optimization, leading to market failures and frictional unemployment. To correct these information asymmetries, minute interventions such as government-sponsored job fairs or public employment services may be justified (Sveen and Weinke, 2008).

Lastly, the paradigm fundamentally supposes that the labor market is an arena where firms and workers exercise equal bargaining power in setting levels of wages and employment. Furthermore, as buyers of labor supply, firms are considered to be price takers of wages preferred by workers in a perfectly competitive market where no single firm or worker is able to significantly influence the overall wage levels (Kerr, 1950). While recent theoretical developments incorporate asymmetries of market power and conditions of monopolistic competition, these are still treated to be exceptions rather than the norm. Instead, workers and firms have equal potential of generating these asymmetries through market concentration or union-generated barriers to entry and adjustment. Hence, emphasis is made especially by neoliberal labor economics on reducing the distortionary impact of unions on optimal wage and employment levels, especially in the context of intensified global competition among local labor markets (Fine, 1998; Boyer and Sailard, 2001; Block and Somers, 2014). In the final analysis, both theories essentially accept the notion that "a flexible labor market is one that behaves, at the aggregate level, like a competitive market" (Beatson, 1995, p. 3).

1.1.1 Globalization and the Promotion of Labor Flexibility

Faced with challenges of decelerating growth coupled with accelerating prices and unemployment in advanced industrial countries, the neoclassical paradigm found resonance with international financial institutions (IFIs) in shaping the prevailing narrative of globalization. Scholars within the paradigm describe globalization as a process primarily driven by technological change that reduced barriers for market interactions on a global scale. The first set of technological changes occurred in large-scale, container-based transport in the 1960s that helped create conditions for the development of international production networks. Innovations in information and communications technology (ICT) rapidly facilitated this process of internationalization in the 1980s (Hummels, 2007; Baldwin, 2016). These technologies are presumed to level out benefits gained by national economies participating in global markets. Trade and capital barriers therefore prevented economies from fully maximizing these benefits based on their comparative advantage. For instance, the World Bank published a landmark study claiming that the "East Asian growth miracle" from the 1960s was in large part boosted by economic openness (Birdsall et al., 1993).

The attribution of rapid growth to integration in the global market laid the foundation for the widespread promotion of the *Washington Consensus* as a set of policies that were aimed at boosting growth and maximizing gains from trade in developing economies. According to this Consensus, trade and capital openness must be combined with minimizing the state's role in the domestic economy to ensure growth and stability when faced with external economic shocks (Williamson, 1990). In a report that sought to assess the results of the Consensus' reform agenda, the World Bank (1998) concluded that the mixed success of countries that adopted the agenda is due to the insufficiency of the initial set of reforms to guarantee growth and stability. Therefore, the Consensus needed to be appended with another set of reforms that were more focused on the domestic regulations. A crucial element of the *Augmented Washington Consensus* emphasized structural reforms towards more flexible labor markets, arguing that rigid regulations slowed down the reduction of unemployment especially in economies with low productivity and high labor surplus. In developing countries that implemented structural adjustment programs, the Augmented Washington Consensus also emphasized the importance of labor reforms towards flexibility in the pursuit of macroeconomic stabilization (Rodrik, 2006; Marangos, 2009).

This shared understanding by the neoclassical paradigm on the drivers of globalization and the relationship of the labor market to the macroeconomy led to the development of two levels of analysis in the study of labor flexibility – first, as a microeconomic concern centered on the concept of the *flexible firm* and second, as a reform agenda for national labor markets to resolve unemployment and growth challenges.

Studies on the *flexible firm* were based on the observation that the Fordist model of production and corporate organization had been fundamentally transformed by opportunities created by technological developments as well as competitive uncertainties (Penn, 1992). Observational studies on changes in firm behavior in the United Kingdom (Atkinson, 1985) and the United States (Osterman, 1987) proposed three modes of flexibility that firms were observed to undertake:

1. *Functional flexibility* – reorganizing the existing workforce in order to perform multiple duties within the firm and adapt to changing demands of technology or economic conditions;

2. *Numerical flexibility* – capacity to modify the size of the workforce, the length of contracts, and working-time in response to changes in demand; and

3. *Wage or financial flexibility* – absence of wage rigidity that can inhibit possible downward adjustments when necessary.

Atkinson (1985) observes that a flexible firm is not likely to adopt all three strategies, but uses combinations of at least two strategies depending on its priorities, which may be determined by industry differences and sensitivity to demand changes, among other factors. Combined modes of flexibility also produce a segmentation of workers within the firm, wherein functional flexibility is utilized with a high-skilled *core workforce* while numerical and wage flexibility are often deployed upon a *peripheral workforce* whose skills are widely available in the labor market and are therefore more replaceable. Atchison (1991) remarks that this periphery is often characterized by a growing share of temporary and part-time workers, or alternatively, by subcontracted workers hired using temporary employment agencies, effectively detaching them from the firm in legal terms.

The model of the flexible firm has been widely debated by critical perspectives for lacking evidence on the universality of the modes of flexibility and their widespread use, arguing that the model functions to obscure issues of non-standard employment in favor of advancing flexibility as a policy preference (Pollert, 1988; Penn, 1992; Hunter et al., 1993; Burgess, 1997; Kalleberg, 2001). Nonetheless, modes of flexibility are still prominent in the literature of organizational management and human resources as studies therewith aimed to emphasize the agency exercised by workers in firms' decisions to undertake higher degrees of flexibility. These studies also highlight the mutual benefits of workers and firms from numerical flexibility, such as higher productivity for the peripheral workforce and increasing investments in innovation by investing in the core workforce (Brewster, Mayne, and Tregaskis, 1997; Rousseau and Arthur, 1999; Berg and Velde, 2005)

In line with these are studies that portray the segmentation in flexible firms as job ladders that allow for mobility, i.e. the peripheral workforce can use their numerically flexible status as "stepping stones" to the core workforce. Hence, flexible employment can positively function for screening and training purposes by providing incentives for workers to provide higher efforts and gain mobility amidst a widespread job-skills mismatch (Engellandt and Riphahn, 2005; Cuyper, Notelaers, and Witte, 2009)[3], as these short-term arrangements provide employers a time period of determining whether employees possess skills necessary for long-term employment. This focus on the mismatch between jobs and skills is broadly in line with *human capital theory* (HCT). Focusing on the supply side of labor markets, HCT attempts to explore the "extent to which human capital is accumulated, through education, training and work experience, and how it is used and rewarded" (Fine, 1998, p. 57). Whereas traditionally, the neoclassical paradigm conceived of workers as identical units that together form labor as a factor of production, HCT recast these workers as individual investors of their own human capital, actively increasing their employability, efficiency, and wage levels through advancements in education and training (Schultz, 1963; Becker, 1964).

On the level of national labor markets, the impetus towards flexibility was driven by the instability and uncertainty resulting from commodity shocks in world trade in the 1970s. European countries that had regulated their labor markets through state and local legislation, multiple levels of collective bargaining, and comprehensive welfare systems had increasingly grown concerned with rising levels of unemployment. In the 1980s, the competition with newly opening low-cost labor markets in Asia had intensified while jobs in Europe had been generally observed to maintain the standard employment relationship (SER) and protections therewith (Lodovici, 2000; Kalleberg, 2018).

In the neoclassical narrative, the *jobs miracle* of the United States since the 1970s[4] could be attributed to the high flexibility of its labor market relative to Europe's heavily regulated welfare states that were observed to suffer higher rates of unemployment in the same period. Giersch (1985) referred to this period as *Eurosclerosis*, demonstrating the negative relationship between

[3]See Handel (2003) and McGuinness, Pouliakas, and Redmond (2017) for a comprehensive exposition of the literature on the skills mismatch.

[4]The *jobs miracle* describes the unprecedented decline in cyclical unemployment rates of the United States relative to European labor markets according to the OECD (1994).

reducing unemployment and labor regulation.[5] Scholars in the paradigm then reverted to core neoclassical principles, arguing that if rational firms that create labor demand were allowed maximum freedom to determine the extent of functional, numerical and wage flexibility without government intervention, then unemployment would be reduced (Rosenberg, 1989; Siebert, 1997). The objective of labor flexibility therefore became centered on reducing the gap between the *necessity of adjustment* brought about by rapid economic and technological changes and a labor market's *capacity of adjustment* or the freedom of firms to exercise the above modes of flexibility without being restricted by laws or norms. The most comprehensive and influential articulation of this project towards greater flexibility in the labor market is *The OECD Jobs Study*, published in 1994. The study claimed to describe how this wide adjustment gap caused by labor market rigidities had contributed to long-term unemployment and economic stagnation

Since firms were subjected to greater risks and rising competitive pressures since the 1970s, the study suggested that legislated wage floors, firing costs, standardized work hours, and social security contributions resulted in disincentives for firms to hire more workers. Based on this study, the OECD concluded that states can best reduce unemployment by relaxing regulations and institutional arrangements that caused the countries' respective adjustment gaps.

The *The OECD Jobs Study* in 1994 also assumes a trade-off between unemployment and equality, in which the former has policy precedence over the latter especially in countries with persistently low growth patterns. Studies adopting this assumption point to the interaction of rigidities introduced by employment protection legislation and a large informal sector. Therefore, excessive regulation results in higher costs for small enterprises and discourages two outcomes: job creation and the inclusion of a higher number of workers into the formal sector (Ahsan and Pagés, 2009; Bosch, 2004). Supported by these studies, recommendations made by the International Monetary Fund (IMF) for emerging economies consist of reducing costs and duration of labor turnover in order to reduce unemployment and close the adjustment gap identified in the *The OECD Jobs Study* (Duval and Loungani, 2019).

In the same vein, the World Bank since 2004 has revitalized the recommendation of flexibility on developing countries' labor markets through its annual *Ease of Doing Business Report* which produced an *Employing Workers Index* that ranks countries based on national legislation of labor regulations such as minimum wages, restrictions on short-term employment, and non-wage labor costs. Written as a guide for foreign investors who engage in "regime shopping"[6], the index grants higher rankings to countries with less protected labor markets. In the country

[5] The European Commission (1984, p.100) lists these labor regulations as follows: "The wage determination system; non-wage costs; taxation; minimum wage levels; unemployment insurance; rules governing recruitment and dismissal, the flexibility of working hours and the organization of work, health hazards and safety; rules governing unions and the right to strike; pension schemes; the housing market; training and education"

[6] This concept has been widely used in the sociology of work by scholars like Edwards and Elger (1999) and Collins (2003) to explain that decisions of foreign companies to invest in developing countries depend on a cost-minimizing calculation of labor and environmental laws, taxation, and other government regulations in place.

reports that the World Bank produces, it constantly reiterates the need to improve a country's ranking in the index through further deregulation in order to improve their competitiveness and attract investments.

Despite the breadth of cases that these policy recommendations encompassed and the tremendous influence it has exerted, the effects of labor reforms on unemployment generated mixed evidence (Nickell, 1997; Howell, 2005; Vergeer and Kleinknecht, 2012). After a reassessment of *The OECD Jobs Study* in 2006, the OECD updated its findings and recommendations, shifting its focus onto labor supply. The study, *Boosting Jobs and Incomes*, suggested that labor flexibility has created significantly positive effects on the inclusion of previously marginalized groups, namely women and young people, into the labor market. Hence, labor flexibility has recently been re-framed to provide greater autonomy to otherwise disadvantaged groups that also benefit from work-time flexibility (Fine, 1998; Bryan, 2012). Rubery and Piasna (2017) call this the *social justice* argument that has recently been brought to the fore of promoting deregulation. This shift in focus also renewed the interest of multilateral development institutions in *active labor market policies* (ALMPs), which promote government intervention only insofar as human capital investments are concerned. Taking flexible labor markets as a given, these policies frame unemployment as a problem of individual employability based on skills and qualifications which can therefore be addressed by training and skill-building programs which can be implemented by governments and the private sector. These active labor market policies enjoyed widespread appeal in both developed and developing countries, promoted by international bodies such as the International Labor Organization (2016) and the World Economic Forum (2019).

In relation to active labor market policies, another set of reforms that fits squarely with the promotion of minimizing government intervention is the Danish model of *flexicurity*. This model seeks to combine flexibility in the maintenance of diverse employment arrangements with a minimum level of security through welfare provision such as in lifelong learning and unemployment benefits. Despite the compromise that the policy promises, flexicurity has also been widely challenged by mixed results of its application across other European countries with uneven welfare state configurations and more importantly, the push towards austerity within Europe after the Global Financial Crisis of 2008 (Wilthagen and Tros, 2004; Viebrock and Clasen, 2008; Hastings and Heyes, 2016). In line with this, the emphasis of flexicurity on the cost-effectiveness of policies and fiscal discipline has generally translated into the exclusivity of the policy's applicability within the OECD and not developing countries.

1.1.2 Theories of Wage Determination, Inequality, and Growth

The basic model of wage determination under perfect competition consists of workers with identical levels of marginal productivity and wage demands, as well as firms that pay these workers the value of their marginal product (Kuh, 1967). Confronted with the changing realities of labor market dynamics during the post-war period, neoclassical theorists incorporated heterogeneous productivity levels, wage levels, and social forces (Hicks, 1932); wage differentials as a result of imperfect competition (Lindblom, 1948); and effects of collective bargaining by labor unions (Lewis, 1963). These developments share the observation that wages are determined on multiple levels (e.g. firm, industry, and regional markets), with each level considered as a market with a specific configuration of imperfections.

As neoliberal globalization rapidly advanced labor and capital mobility, theories on wage determination influenced by New Keynesian and neoliberal economics also expanded to accommodate wage dynamics in the context of global trade and competition. Two interrelated wage theories – efficiency wages and human capital theory – rose to the fore of neoclassical analyses.

The theory of *efficiency wages* builds on the rejection of the strict equivalence between the marginal productivity of labor (MPL) and wages. According to the theory, workers' wages are not simply an expression of the MPL but rather, real wages offered by a firm also affects workers' efforts and productivity. The efficiency wage model has been the basis of exploring reasons why employers may set wages higher than MPL[7].

In response to realities that even advanced industrial economies no longer maintained conditions of full employment (a key assumption of the theory), efficiency wage models have been expanded in two ways. On the one hand, the converse of the theory was explored, as studies assumed conditions of higher unemployment levels, under which workers are assumed to be willing to accept wages lower than their MPL or human capital investment in exchange for job stability (Azariadis, 1975).

On the other hand, efficiency wage models have been extensively modified to explore labor markets of open economies. Beginning in the 1990s, this theory experienced a revival through its integration with trade theories in examining wage determination and inequalities among economies engaging in trade. Since labor is primarily considered a factor of production, relative wages at similar productivity levels increasingly became an indicator of competitiveness and therefore led to distributional losses from trade, especially for less-educated, low-skilled workers (Borjas et al., 1997). This accentuated the recognition that wage determination can no longer simply be confined within national borders. Another mechanism through which ef-

[7] Studies observe several reasons for employers to pay efficiency wages– to minimize labor turnover costs and workers' leaving jobs (Salop, 1979), increase its chances of hiring highly-skilled workers (Weiss, 1980), reduce shirking in the absence of monitoring (Shapiro and Stiglitz, 1984), and encourage greater work effort and morale (Akerlof, 1984).

ficiency wages continue to be relevant under globalization is its continued utilization to incentivize highly-skilled workers in large firms whose competitiveness is derived from technological innovation (Meckl, 2004; Stavrevska, 2011).

These developments had two major effects. First, international competitiveness became tightly linked with improving skill levels of a nation's workers. Second, a dualist structure emerged in terms of wage inequality between skilled and unskilled workers, the value of *skill* being determined by the nation's comparative advantage.

In accordance with human capital theory, employers pay wages that correspond to the level of skill and investment made by individual suppliers of labor. HCT theorists like Kerr (1950) argue that individualized job rewards based on human capital improvements tend to produce better-quality jobs for employees, since the system of incentives are much more transparent. HCT also explains variations in non-wage terms of employment like job stability and the likelihood of layoffs during economic downturns, with evidence showing that employees engaging in human capital investments are more likely to be rewarded with longer job tenure (Parsons, 1972; Virtanen et al., 2003).

In the context of intensified competition among workers under globalization, human capital has been adopted as a metric of comparative advantage. In 2018, the World Bank launched the *Human Capital Project* to encourage countries to pursue policies to increase investment in career-building education and vocational training, identifying gaps in human capital as the primary source of wage and income inequality among countries' labor forces (World Bank, 2019).

Since the neoclassical paradigm considers technology as the driving force of globalization, the effect of HCT on wages is also affected by technological development through *skill-biased technological change*. Especially for developing countries that depend on key technological exports of goods and services, authors like Pissarides (1997) and Acemoglu (2002) suggest that human capital investments of workers in developing countries are generating skill and wage premiums in technologically-driven sectors with high demand for educated workers. This creates a dualist structure in which an upward bias widens the gap between the wage levels of higher-skilled workers in the technological frontier and low-skilled workers engaged in low-productivity activities (Kwon, 2013). Although it may contribute to wage inequality, neoclassical theorists argue that skill-biased technological change increases job quality on average, as they provide greater opportunities for educated workers to be rewarded accordingly (Goldin and Katz, 2009).

These recommendations towards flexible labor reforms and wage determination have also been made by neoclassical economists in the Philippines to address issues of unemployment and a large informal sector. Sicat (2004, p. 18)suggests that stringent minimum wage laws, dismissal costs, and job security are responsible for persistent unemployment, consequently recommending to relax restrictions on employment protection, since the use of temporary contracts is simply a manifestation of "business trying to adjust to the market to reduce cost".

In addition to these recommendations, the 2018 World Bank Economic Update on the Philippines also states that:

> The labor market in the Philippines is rigid due to cumbersome regulations. According to the World Economic Forum indicator for ease of hiring and firing, the Philippines has higher costs than all regional peers. A flexible labor market supports productivity growth by allowing factors of production to move freely across firms and sectors. In an environment without distortions, firms with high productivity growth would be absorbing labor and capital from firms that are less productive. Evidence shows that the Philippines has more restrictive labor market regulations, and these have likely impeded the efficient allocation of labor to the most productive firms. (World Bank, 2018a)

This is supported by recent studies on the Philippines. Paqueo and Orbeta (2016) present a critique on the regulation of temporary employment contracts and job outsourcing. Consistent with the neoclassical paradigm, the authors adopted the narrative of Eurosclerosis to justify the benefits of temporary contracts in reducing unemployment. As in the European cases, the study claims that firms in the Philippines use temporary contracts as "buffer stock" and as screening devices for workers' productivity. Second, using an index patterned after the World Bank's *Ease of Doing Business*, they illustrate that the Philippines ranks 2nd lowest in East and Southeast Asia in "labor market efficiency", as more stringent regulations on hiring and firing inhibit the attraction of foreign investment. The authors justify the necessity of short-term contracts and low starting wages in the Philippines as these periods are costs borne by employers to fill in gaps of training and education in line with human capital theory.

Skill-biased technological change has likewise been used by Lanzona (2000) and Aldaba (2013) to explain wage inequality in the Philippines, especially for sectors heavily dependent on technological exports.

Despite the dominance of the neoclassical paradigm in academic and policy arenas of the Philippines, studies done within the tradition only make broad pronouncements based on neoclassical theory, but have not systematically demonstrated the costs and benefits of deregulation as they claim particularly to unemployment and workers' welfare. Thus, they merely provide the theoretical but not empirical support to recommendations by international financial institutions towards dismantling what they termed to be "excessive regulation" of the Philippine labor market (Sicat, 2004; Paqueo and Orbeta, 2016). .

1.2 New Institutionalist Economics

New Institutionalist Economics (NIE) emerged from the view that the neoclassical paradigm was inadequate to capture the complexity of interactions between economic actors in markets. Notably, theories associated with NIE were developed concurrently with the onset of globalization. As a paradigm, its main contribution has been in explaining firm transitions from vertical to horizontal organizations, decision-making processes on externalization, and governance in these new arrangements.

The earliest version of New Institutionalist Economics can be traced back to a 1937 article by Coase entitled “The Nature of the Firm”. However, it was only in the 1960s and the 1970s when scholars like Harry Demsetz and Oliver Williamson revisited the work of Coase that NIE was established as a systematic paradigm with its own assumptions and research agenda. Throughout the advancement of theories within NIE, it has drawn insights and critiques from other paradigms.

First, NIE is closely associated with the neoclassical paradigm due to the retention of a number of core assumptions within its analysis[8]. Despite this, NIE scholars distinguish the paradigm from neoclassical economics in three key ways: (1) the market is only one among many modes of organization, e.g. the firm and public bureaus (Williamson, 2005), (2) NIE treats firms as governance structures organized individually from pure market coordination whereas neoclassical theory only presume firms to be unitary agents within the market (Coase, 1991), and (3) NIE proposes an economic environment of uncertainty, risk, imperfect information, and decision-making based on bounded rationality[9].

Second, NIE scholars tend to have an ambivalent treatment of institutionalist political economy, or more specifically, the school of Old Institutionalism. On the one hand, Williamson (2005) considers NIE to be theoretically indebted to John Commons from the Old Institutionalist school who first conceived of the transaction as the basic unit of economic activity [10]. By

[8]Scholars such as Fine (1998) and Kaufman (2004) consider NIE to be a theoretical cousin, if not an offshoot, of neoclassical economics, because of NIE’s continued subscription to the primacy of the market, methodological individualism, as well as assumptions of scarcity and competition.

[9]*Bounded rationality* is the recognition that economic agents still tend towards utility maximization but make decisions based on limited information. This builds upon the work of Simon (1978), which sought to address the observed gaps in the rational *homo economicus* described by neoclassical economics. Bounded rationality assumes that agents make economic decisions through imperfect calculations of utility based on information currently available to them, including past experiences. While rationality is ’bounded’ in such a way that preferences of agents are neither pre-determined nor fixed, the continued emphasis on individual rationality as the basis for economic decision-making, as opposed to social convention, differentiates bounded rationality from the fundamental uncertainty described by Keynes (1936).

[10]Commons (1931, p. 651) strongly argued that what constituted economic activity was neither exchange nor individual behavior but the transaction which he defines as "the means, under operation of law and custom, of acquiring and alienating legal control of commodities, or legal control of the labor and management that will produce and deliver or exchange the commodities and services".

contrast, other NIE scholars are critical of the Old Institutionalist approach, claiming that it did not have any positive models and "all it had was a stance of hostility to the standard economic theory (Coase, 1984, pp. 229–230).

Pertinent schools of thought that share theoretical tools with and exert significant influence upon NIE include public choice[11] and modern welfare economics[12]. The skepticism of *public choice theory* towards government-based regulation appears to be shared by NIE. As Williamson (2000, p. 603) notes, *public bureaus* should be the "organization form of last resort" which firms are expected to engage after "spot markets, incomplete long-term contracts, and regulation" beforehand. Similarly conceived in modern welfare economics, *incentives* also play a key role in the NIE paradigm as they are instruments within modes of organization that motivate or discourage the behavior of social actors, including workers and employers (North, 2005).

Independent of these theories, there are three sets of concepts that are central to new institutional economics that are especially relevant to its analysis of globalization and labor flexibility. These are (1) transaction costs and contracts, (2) institutions, and (3) the make-vs-buy calculation of firms.

In neoclassical terms, coordination through the spot market of supply and demand is regulated by price and production costs. However, NIE adds that economic interaction also entails transaction costs [13] Williamson (1975) identifies three forms of transaction costs which are all present in NIE models of labor markets. These transaction costs and their applications are as follows:

1. *Search and information costs* form the basis of search-and-matching models which attribute unemployment to a lack of coordination within labor markets with limited information on the side of employers and workers (Diamond, 1982; Mortensen, 1982; Pissarides, 2011);

2. *Bargaining and decision costs* affect choices of actors between internalization and externalization, short-term and long-term contracts, among others (Milgrom and Roberts, 1990; Simester and Knez, 2002); and

[11] *Public choice theory* deals with issues of market failures and rent-seeking behavior by social actors. Social actors that are assumed to take actions in view of their self-interest include government officials (Murphy, Shleifer, and Vishny, 1993), bureaucrats (Kahana and Nitzan, 1999), and labor unions (Bellante and Long, 1981).

[12] *Modern welfare economics* focuses on theories of incentive structures and alignment aimed at shaping behavior of social actors towards maximizing utility in economic interactions and public policy (Atkinson and Stiglitz, 1976; Hammond, 1979; Besley and Coate, 1995).

[13] *Transaction costs* are procedures such as negotiations, contracts, inspections, and dispute settlement mechanisms that result from imperfect information among economic actors. Coase (1991) argues economic activity is only possible through the reduction of transaction costs by the establishment of governance structures.

3. *Policing and enforcement costs* are the chief concerns of personnel economics which attempt to optimize employment arrangements in order to maximize efficiency of labor contracts (Lazear and Shaw, 2007; Paul and Scott, 2011).

Institutions create the set of incentives and constraints that shape the decision-making calculus of actors in order to reduce transaction cost. Ménard and Shirley (2005) identify three types of *institutions*: (1) written rules and agreements that govern contractual relations and corporate governance; (2) constitutions, laws and rules that govern politics, government, finance, and society; and (3) unwritten codes of conduct, norms of behavior, and beliefs. The authors also identify three types of *organizational arrangements* where these institutions may be present, namely: (1) markets, firms, and the various combinations of forms that economic actors develop to facilitate transactions; (2) contractual agreements that provide a framework for organizing activities; and (3) the behavioral traits that underlie the arrangements chosen. Villeval (2001) argues that the ultimate purpose of institutions in NIE is to ensure economic efficiency by adjusting market operations. Among the levels of institutions identified by NIE[14], the paradigm's scope is limited to "the institutional environment where formal rules interact with informal rules and thus, organizations such as the government and law are necessary to ensure order through the enforcement of property rights; and governance by organizations, whose objectives are the enforcement of contracts as well as reduction of transaction costs in a way that makes the market more knowable to agents" (Pereira and Lopes, 2018, p. 459).

Lastly, economic agents that realized the existence of transaction costs in their interactions were faced with a dilemma between *internalization* (making) – deciding to coordinate the production of the commodity or service – or *externalization* (buying) – continuing to allow the market to coordinate individual transactions. When market coordination is calculated to lead to higher transaction costs, the decision to internalize coordination, originally referred to as verticalization, led to the emergence of firms as a mode of organization[15] (Coase, 1937; Masters and Miles, 2002).

The decision to organize a firm and to internalize transactions also creates sunk costs for economic agents, which may be physical, human, or locational assets. Firms are expected to undertake these investments with the primary consideration of *asset specificity*, or the degree of non-transferability to other users or uses without losing value. In effect, internalization entails very high sunk costs (Williamson, 1985). Externalization, on the other hand, is an attempt to minimize these costs without sacrificing the gains that are potentially accrued from asset specificity. This *make-vs-buy* dilemma of firms is central to the construction of global value chains as well as restructuring employment arrangements.

[14] See Williamson (2000) for a discussion of all four levels.

[15] The *firm* in the NIE paradigm has the following features: "(1) a governance structure based on particular contractual arrangements; (2) the network of conflictual and/or co-operative relationships between the different participants in its working; and (3) its boundaries with respect to other institutions" (Currie and Messori, 1998, p. 174).

1.2.1 Globalization of Production and Outsourcing

Unlike the neoclassical paradigm that attributes globalization primarily to technological changes, a result of institutional reconfigurations, or shifting patterns of capitalist profit accumulation, NIE diverges from the previous approach such that it centers the narrative specifically on the complex reorganization of economic interactions led by *firms*. Gibbon, Bair, and Ponte (2008, pp. 317–318) centers this discussion on the *globalization of production*, which began in the 1980s and was driven by four factors: (1) the rapid decline in transaction costs, particularly in transportation and communication; (2) extensive incorporation of developing countries into labor-intensive production; (3) the centrality of specialization and differentiation in economic competitiveness; and (4) changing patterns of ownership, manifesting for instance in the ownership of outsourced factories by local rather than foreign capital.

This narrative is organized by the paradigm on two levels: (1) intra-firm management choices, and (2) the complex reorganization of firms into global value chains.

NIE regards the transformation in employment arrangements as a matter of firms' *strategic choices* and a result of the widespread reduction of transaction costs in procuring contingent labor. Hence, the literature on externalization of labor often overlaps with an area of business research called *strategic human resource management*[16]

In view of these transformations, there is a general acceptance within the new institutionalist paradigm that firms have indeed diversified their strategies when it comes to the coordination of employment transactions since the 1980s[17] Deavers (1997, p. 504) identifies four factors that facilitated this diversification:

1. *Rapid technological development* which led to the reduction of transaction costs and "time friction" in job search and work management;
2. *Heighetened uncertainty and risks* where firms continue to innovate organizational patterns towards "risk-sharing" and adjustment to rapid changes;
3. *Strategic on core competencies* where firms aims to enhance their comparative advantage by specializing on a few tasks and outsourcing others; and
4. *Globalization* which heightened competition among firms and opened up possibilities of externalizing transactions on a global level.

Proponents of NIE argue that firms put a greater emphasis on reducing transaction costs in the process of outsourcing (Deavers, 1997). Williamson (1980) explicitly rejects the proposition of institutional political economy that *power inequalities* were responsible for restructuring

[16]This is a subfield of management that is based on assumptions of NIE and is "focused on the recognition of human assets [...] in the path towards optimizing a firm's performance." Closely tied with personnel economics, it argues that management of employees as internal resources "holds the key to a firm's competitive advantage" (Wood and Kispál-Vitai, 2014, p. 74). Its proponents include NIE economists like Wright and McMahan (1992) and Baron and Kreps (1999).

[17]Diversification here describe the increasingly heterogeneous and individualized relations between firms and workers, consistent with the managerial turn described by Boltanski and Chiapello (2005).

employment relations within firms. Instead, the author suggests that the same logic of internalization and externalization applied to a firm's management of it human assets, i.e. lower (higher) transaction costs vis-a-vis the market would lend human assets to be internalized (externalized) by firms.

Earlier studies within NIE associated lower transaction costs with permanent contracts since firms' sunk costs of search and matching, human resources, and training would all be higher if done repeatedly as would be the case of hiring temporary workers (Masters and Miles, 2002). The study by Lepak and Snell (1999) was the first to systematically examine why firms would choose to outsource, which refers to hiring and managing in different modalities that are external to the company but expecting workers to perform work in the firm's site of production. First, they observed that firms in general adopt a strategy of combining different employment modalities within a single firm. Second, firms' decisions to internalize or externalize a given position are based on *asset specificity* – whether skills and activities that workers are able to perform are unique to the firm, increasing the transaction costs of hiring and firing. Otherwise, repetitive non-specific activities are observed to have higher chances of being contracted out.

Kulkarni and Ramamoorthy (2005) build on the use of the asset specificity framework to analyze firms' outsourcing decisions, and adds the factor of firms' perceptions of uncertainty; both of which have two categories. First, asset specificity can be broken down into (1) *firm-specific* human assets, which refer to the skills of the workers that are specifically fitted to the core competencies of the firm and are difficult to source from external labor markets and (2) *usage-specific* human assets, or the degree of inflexibility of a worker's skills to perform other functions in the firm aside from assigned tasks. Firm-specificity is inversely related while usage-specificity is directly related to the likelihood of outsourcing a specific job. Hence, the authors consider jobs that rely on simple repetitive tasks such as those characteristic of Fordist assembly lines to be most likely to be outsourced, even more likely than janitorial services that may have lower usage-specificity and are therefore flexible to other activities aside from cleaning.

The second factor they identify is uncertainty, under which there exist two types. The first is *competitive uncertainty* which results from the assessment of costs of maintaining positions given the unpredictability of competitor's actions. A higher competitive uncertainty is associated with a higher likehood of outsourcing. The second is called *behavioral uncertainty*, which refers to the ease of evaluating workers' performance on an activity while minimizing costs on supervision. Behavioral uncertainty is directly related to the concept of *opportunism* developed by Williamson (1985). This implies a moral hazard problem where workers, left unsupervised without disincentives from shirking, are perceived to be less likely to exert effort, leading to lower productivity. Given the choice therefore, firms would choose to internalize activities whose performance needed direct supervision to be evaluated; which explains the internalization of administrative functions and externalization of production functions when a firm engages in downsizing (Kulkarni and Ramamoorthy, 2005).

A study by Ono (2001) focuses on the transaction costs incurred in the intermediary role of temporary workers' agency that are factored in the calculation of externalization choices made by firms. First, he argues that despite placing an additional layer of transactions, contracting out through temporary agency employment does not necessarily lead to higher transaction costs compared to labor hired and managed (i.e. internalized) by firms. Instead, the author argues that labor markets mediated by temporary agency employment resemble *spot markets*, closer to a pure market-mediated exchange than internalizing human assets through direct hiring. This is because transaction costs associated with the employment relationship such as search and matching costs, training costs, as well as hiring and firing costs are absorbed by the temporary employment agency and are simply paid for a service fee that costs less to firms than present and future costs that arise from internalization. As a result, firms can hire workers with the higher informational capacity of employment agencies and fire workers at will with minimal costs, thereby mimicking the features of a spot market.

Another important observation of the study's spot market framework is how temporary work agencies mediate in the process of wage-setting between firms and workers. Since agencies deploy different types of workers to various firms and industries, the study suggests that these agencies possess information on market wages that they are able to match to information they also hold on the education and work experience of each worker. The author also suggests that temporary agency employment solves the problems of downward wage and employment rigidity, and contrary to Deavers (1997), is therefore a very effective and widely utilized cost-minimization strategy. As Kalleberg (2000) and Dube and Kaplan (2010) demonstrate, wages of workers who were externally hired and managed tend to be lower and are less upwardly mobile. In macroeconomic terms, Ono (2001) argues that the influx of externally-hired labor is also a solution to the inflation-employment tradeoff, as aggregate employment rises without causing increases in real wages.

1.2.2 Labor Institutions in Global Value Chains

The organization of production on the global level operates under a similar logic of transaction cost reduction in the choice between externalization and internalization. While the study of globally-integrated production and accumulation have previously been done by world-systems and other structural theories[18]Milberg and Winkler (2014) observe that the dominance of the

[18]The origins of the production chain can be traced to the world-systems approach pioneered by Hopkins and Wallerstein (1986), whose concept of the *global commodity chain* emphasized the historically uneven development generated by the process of embedding capital onto particular localities. This original conception attributes the unevenness to the unequal distribution of capital between core and peripheral regions. Earlier studies by Gereffi and Korzeniewicz (1994) likewise acknowledge these issues, but later on shifted the emphasis of global value

term "global value chain" (GVC) is reflective of the influence of NIE, specifically of the transaction cost framework, in reframing the analysis towards firms' strategic choices.

Kogut (1985, p. 15) defines value chains as "the process by which technology is combined with material and labor inputs, and then processed inputs are assembled, marketed, and distributed. A single firm may consist of only one link in this process, or it may be extensively vertically integrated". It concerns the organization of production, done either through markets or firms. Similar to the nationally-embedded firm, the decision to externalize production on the global level similarly depends on asset specificity, opportunism, and coordination costs. What is important to note is that the boundaries of the firm are increasingly blurred. Therefore, production is built around coordination of different modalities of organization, the network of which forms *governance structures*. Debates on *governance* in the GVC literature follow the theoretical shift from global commodity chains (GCCs) to GVCs. Governance in GCCs are assumed to follow logics of *driving*, either by buyers or suppliers, which emphasizes power relations in the active determination of allocating financial, material, and human resources (Gereffi and Korzeniewicz, 1994, p. 7). *Governance structures* of GVCs, on the other hand, focus on forms of inter-firm coordination on the first-order interaction between lead and supplier firms. Gibbon, Bair, and Ponte (2008, p. 323) suggest that this shift in the discourse of governance[19] has two significant implications:

> First, the *explanatory scope of the governance concept is narrowed* from the length of the chain in the former to the inter-firm transaction at a specific node in the chain in the latter; second, the 'governance as coordination' formulation reflects a key assumption of transaction cost economics, i.e. that the *economy's organizational forms emerge as efficient solutions to structural challenges of transacting*, and particularly to problems associated with asset specificity. [...] The theory of GVC governance suggests that power is a contingent property of only certain types of inter-firm coordination (emphasis supplied by author).

Building on the polyvalent treatment of coordination as governance, Gereffi (2005, pp. 83–84) proposed five governance structures:

1. *Hierarchical value chains* where codification and skills transfer are the most costly, leading the firm to internalize design and production costs;
2. *Modular value chains* characterized by a high degree of codification and supply capabilities wherein the supplier firm internalizes costs of capital investments that are not firm-specific;
3. *Relational value chains* with complex production patterns that cannot be codified and high supply capabilities, but investments are made in a mutually dependent manner between supplier and lead firm;

chains towards the organizational and technical aspects of coordination across the chain, earning the GVC concept widespread appeal among international financial institutions and mainstream policy studies (Gereffi, Humphrey, and Sturgeon, 2005).

[19]This theoretical shift towards governance as coordination has been critiqued in the literature by empirical studies of actual production chains that call attention to the absence of norm formation processes (Ponte and Gibbon, 2005) and careful consideration of external macroeconomic and regulatory environments aside from transaction costs in the GVC governance framework (Bair and Peters, 2006).

4. *Captive value chains* whose production features a high degree of codification but very low supply capabilities of the supplier firm, leading to an asymmetric relationship where the supplier is highly dependent upon lead firm; and
5. *Market value chains* where production has the easiest degree of codification and therefore costs of switching between firms are low.

These governance structures can be summarized in Table 1.1.

Table 1.1: Governance Structures

Governance type	Complexity of transactions	Ability to codify transactions	Capabilities in the supply-base	Degree of explicit coordination and power asymmetry
Market	Low	High	High	Low
Modular	High	High	High	↑
Relational	High	Low	High	
Captive	High	High	Low	↓
Hierarchy	High	Low	Low	High

Source: (Gereffi, Humphrey, and Sturgeon, 2005)

In terms of their impact on the organization of work, the *asset specificity framework* applied to firms likewise apply to GVCs. The lower the degree of coordination and complexity of transactions there is among firms in a certain value chain (i.e. in market and captive value chains), the higher the likelihood there is for supplier firms to employ numerically flexible labor (Gereffi, Humphrey, and Sturgeon, 2005).

Recognizing that supplier firms have different productive capacities and therefore value-added gains from participating in value chains are highly uneven, policy studies on GVCs began to highlight the importance of *upgrading in value chains*, which has an economic as well as a social dimension. Highly emphasized in mainstream policy discussions, *economic upgrading* refers to "the move to higher value activities in production, to improved technology, knowledge and skills, and to increased benefits or profits deriving from participation in GVCs" (Gereffi, 2005, p. 161). Since the early 2000s, economic upgrading has been transformed into a political project targeted at developing countries to increase their participation and engage and higher-value-added production within existing value chains (World Bank, Taglioni, and Winkler, 2016; Asian Development Bank, 2016). However, GVC scholars also acknowledge criticisms regarding the drive towards economic upgrading. These critiques highlight, for instance, that rising concentration of production within regional networks limits market entry for new participants and marginalizes countries that are already excluded, as evidenced in the mobile production value chain (Lee and Gereffi, 2015). Other critical studies also question the concept of *value* central to economic upgrading. First, the project fails to account for questions of distributing gains within countries that engage in the upgrading process (Gradin, 2016). Second, scholars also observe a "labor deficit" in the project of GVC upgrading, which tend to overlook issues of inequality and worker voice in the *global distribution of labor* (Taylor, Newsome, and Rainnie, 2013).

These critiques have led to an emerging consensus on the equal importance of *social upgrading*, defined as a "process of improvement in the rights and entitlements of workers as social actors and the enhancement of the quality of their employment" (Gereffi and Lee, 2014, p. 26). Proponents of economic upgrading often assume that social upgrading directly follows economic upgrading. However, the drive towards economic upgrading may come at the cost of social upgrading, as low-value-added firms are constantly pressured to drive wages lower in the pursuit of continued competitiveness. Lee, Gereffi, and Barrientos (2012) argue that case studies of the impacts of GVCs on the reorganization of labor negate the assumed complementarity between social and economic upgrading. Studies of labor-intensive GVCs shed light on the prevalence of an increasing segmentation between a core and peripheral workforce, wherein the peripheral workforce faces precarious conditions with low-wage and temporary jobs. Efforts of firms to undertake economic upgrading may lead to social upgrading for core workers but may cause downgrading for peripheral workers (Milberg and Houston, 2005).

In response, GVC theorists attempted to address the effects of economic upgrading on labor by revising their definition of *governance*. Gereffi and Lee (2014) reintroduce the role of power asymmetry and the multitude of actors involved in GVC governance, grouped into *clusters* with three dimensions: private (firm), social (civil society), and public (national and international bodies) which operate on horizontal and vertical governance types[20], illustrated in Table 1.2.

Despite these attempts to expand the concept of governance to promote *social upgrading*, a number of scholars continue to firmly contest the utility of the approach to long-term development and workers' empowerment.

One critique is that the revised governance types imply that governance actors (i.e. private, social, and public actors) possess coequal political responsibilities towards social upgrading, consistent with the implications of reducing transaction costs in the *public choice framework*. Mayer and Phillips (2017) argue that public choice contributes to the neoliberal erosion of state responsibility towards development and workers' welfare, as assuming coequal political agency leads to *outsourcing governance* away from states to private entities in implementing policies such as improving incomes, health, and environmental standards.

[20]Horizontal governance refers to "locality-based coordination of the economic and social relations between cluster firms as well as institutions within and beyond the cluster". Vertical governance "operates along the value chain, linking a series of buyers and suppliers in different countries, each of which adds values toward the final product" (Gereffi and Lee, 2014, p. 30).

Table 1.2: Horizontal and Vertical Governance Structures

Actor	Scope	
	Horizontal (cluster) governance	Vertical (GVC) governance
Private governance	Collective efficiency (e.g., industrial associations, cooperatives)	GVC lead firm governance (e.g., global buyers' voluntary codes of conduct)
Social governance	Local civil society pressure (e.g., workers, labor unions, NGOs for civil, workers, and environmental rights; gender-equity advocates)	Global civil society pressure on lead firms and major suppliers (e.g., Fair Labor Association) and multi-stakeholder initiatives (e.g., Ethical Trading Initiative)
Public governance	Local, regional, national government regulations (e.g., labor laws and environmental legislation)	International organizations (e.g., the ILO, WTO) and international trade agreements (e.g., NAFTA, AGOA)

Source: (Gereffi and Lee, 2014, p. 30)

Likewise, another critique by Selwyn (2019) on the GVC framework concerns the inability of GVC upgrading to address the systemic gaps of Global North-South capital-labor relations due to an inadequate conceptualization of institutions. The author argues that the GVC literature assumes a direct correspondence between productivity and wage growth which is less likely to be the case in developing contexts. This is because institutional arrangements such as choosing a *low-road approach* to international competitiveness may slow down the rate of wage growth relative to productivity.

1.3 Institutionalist Political Economy

Whereas Neoclassical Economics gives primacy to achieving efficient outcomes determined by market equilibria and New Institutional Economics blurs the distinction between private and public governance, this section will be discussing Institutionalist Political Economy, a paradigm that attempts to provide an alternative account of the mechanisms underpinning labor market outcomes and inequities. The exact articulation of *institutionalist political economy* (hereafter referred to as IPE) as a paradigm was proposed by Chang (2002) to encompass the different heterodox approaches that discuss the question of institutions in the economy – old institutionalism, historical economics, and Post-Keynesian approaches to institutions – and organize them into an alternative approach against the dominance of neoclassical, welfare, and neoliberal economics. Old institutionalism takes stock from the historically grounded analyses of institutions that constituted the economy beginning in the 1930s as pioneered by authors like Commons and Galbraith. Marxists, on the other hand, are theorists that apply historical materialist analysis to studies of capitalism's institutional constructions. These include theorists like Baran and Sweezy as well as pioneers of the regulation approach, Boyer and Saillard. Lastly, Post-Keynesian theorists highlight the centrality of institutions that govern the macroeconomy and structural development.

Although theories associated with the paradigm are very diverse, there are four common assumptions among them.

First, IPE treats markets as a result of a historical process of social construction. Aside from the recognition that norms and institutions such as families, local communities, and organized religions predate the emergence of a market economy, the paradigm considers the market as a system that constantly interacts with coequal social forces, which form the basis of institutions[21].

Institutions not only condition individual behavior but also create the environment for these collective actions and interactions to take place. Hence, institutions play facilitative (Regini, 2000) and constitutive (Chang, 2002) roles where values, norms, and codes shape individual choice and vice-versa in a dialectic manner. Additionally, the paradigm proposes that the market itself is an institution that constantly interacts with others, namely the state, social networks, and communities (Polanyi, 1944) and informal institutions such as social conventions[22]. As a result,

[21] Institutions are defined as "...collective action in control, liberation and expansion of individual action. Collective action ranges all the way from unorganized custom to the many organized going concerns, such as the family, the corporation, the trade association, the trade union, the reserve system, the state. [Its] working rules are continually changing in the history of an institution, and they differ for different institutions; but, whatever their differences, they have this similarity that they indicate what individuals can, must or may, do or not do, enforced by collective sanctions." (Commons, 1931, pp. 149–150).

[22] Conventions are described by Weirich (1989) as social institutions that are established by a given population when group behaviors are enforced and reinforced by rules or practices. shared rules and beliefs, which reveal

institutionalists oppose the assumption that the market is free and perfect [23]. This definition of institutions is fundamentally different from the NIE paradigm's treatment of institutions, which merely facilitate reduce transaction costs for economic interactions. Likewise, the market in NIE is not treated as an institution itself, but is merely an *organizational arrangement* where transactions facilitated by institutions occur Ménard and Shirley (2005).

Second, this view of markets as an institution extends to the conception of the labor market, which is assumed to be embedded in a network of social relations (Granovetter, 1985; Regini, 2000). IPE also makes an important distinction between commodities – goods and services – and labor, emphasizing the human aspect of the market relationship and the counteracting forces that result from its utilization. Hence, labor is treated as a *fictitious commodity*[24].

As Polanyi puts it,

> To allow the market mechanism to be sole director of the fate of human beings and their natural environment, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity 'labor power' cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. (Polanyi, 1944, p. 76)

The sale of labor and the acceptance of employment is not merely a trade-off between leisure and work, or a choice based on marginal disutility but is tied to the maintenance of life itself. *Decommodification* through institutions became necessary in order to avoid the collapse of market society from the destructive perversion of human labor. In this sense, workers do not simply constitute *labor supply*, but are themselves social actors outside the employment relationship as mass consumers (Regini, 2000) and citizens (Marshall, 1950). Regulation of employment therefore functions to balance these intersecting social roles. The paradigm also puts forward the view that workers are constituents of the economy itself whose decisions directly affect both labor and product demand. Hence, increasing their share in economic allocation holds the potential for sustained economic growth (Stockhammer and Onaran, 2013).

Third, IPE also brings the distribution of power within society to the fore of economic analysis. Since the development of markets is fundamentally the result of capitalist accumulation, the

continuity and Similarly, Maucourant and Plociniczak (2013, p. 514) describe these informal institutions as "shared rules that impose constraints on individuals while at the same time opening up opportunities to them".

[23] As Polanyi (1944, p. 140) suggests, "[t]he road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism" by the state and other institutions.

[24] Polanyi (1944) suggests that the market as an institution necessitated the subjection of three factors – land, labor, and money – to the price mechanism and its volatilities. He called these three factors fictitious commodities. The author proposes that the market as an institution necessitated the subjection of three factors – land, labor, and money – to the price mechanism and its volatilities. He called these three factors *fictitious commodities*, because although they are central to the production process like other commodities, their existence is not caused by or predicated upon sale in the market.

unequal distribution of wealth and endowments already predetermines the power of economic actors – their capacity to make decisions that affect the choices of other actors. Power in the labor market is the "understanding that choice is proscribed by past choices, by factors beyond the control of economic agents, and by the structure of established legal and property rights" (Woodbury, 1987, p. 1781). The paradigm highlights the *conflictual* nature of the economic interaction between workers and employers due to the concentration of ownership and control of the means of production by the latter (Albelda, Drago, and Shulman, 1997). Hence, labor market institutions are often the product of social and political struggle whose outcome depends on the balance of power between the two groups. By virtue of ownership, power is inherently structured in favor of employers; workers as individuals do not bargain on equal footing (Schumpeter, 1942; Rosenberg, 1989; Rubery and Piasna, 2017). This inequality proved the necessity of various institutions such as workers' collective bargaining, unions as social actors, minimum labor standards, and regulation of employment to offset the inherent inequalities in the labor market.

Lastly, studies done by IPE scholars often consist of case studies or comparative historical accounts, which prove to be useful in analyzing labor markets in the context of uneven development between economies, networks, supply chains, industries and firms (Grimshaw and Rubery, 2005). As summarized by Addison and Siebert (1979, p. 4), "institutionalists reject abstract theories and advocate for an inductive and interdisciplinary approach to research" due to their assertion that there are no natural laws that govern market relations. As capital embeds itself uniquely in these settings, so do the inequalities that create limits and opportunities for the economic actors therein. This attention given to historical and political forces that apply to particular settings leads to conclusions that are also very contingent upon the conditions under which the phenomena described had occurred. Unfortunately, the movement towards generalizability, predictability, and replicability concurrent with the dominance of neoclassical economics had thoroughly marginalized this historical and contingent approach that is characteristic of the IPE paradigm (Albelda, Drago, and Shulman, 1997; Fine, 1998; Chang, 2003).

1.3.1 Neoliberal Globalization and Labor Flexibilization

The IPE paradigm has long grounded its analysis on the interdependent and interconnected relations among economies throughout the various stages of capitalist development (Arrighi, 1998; Wallerstein, 2004). The rapid changes that began in the 1970s and 1980s represented a stage in which these existing relations underwent a profound transformation due to a combination of factors, each related to the breakdown and restructuring of institutional configurations at the time.

First, restrictions on capital mobility implemented under the Bretton-Woods system were gradually dismantled, heavily affecting the balance-of-payments of indebted advanced industrial and developing countries (Helleiner, 1996). Second, the post-war reconstruction functions of international financial institutions such as the IMF and the World Bank were radically transformed under the leadership of the United States in the aftermath of the debt crisis of the 1980s. The institutional purpose of IFIs shifted to stabilization of crisis-ridden economies through structural adjustment programs (SAPs), policy packages that were oriented towards economic liberalization following the principles of the Washington Consensus (Bello, 1994; Williamson, 1990). Institutional configurations that brokered a compromise between capital and labor such as welfare and developmental states became untenable under the pressure of structural adjustment and austerity (Boyer and Drache, 1996; Esping-Andersen, 1990).

The combination of these factors resulted in globalization, a process that entails the expanding scale, rapid acceleration, growing magnitude, and deepening of transnational flows of economic interaction (McGrew and Lewis, 1992). These interconnections and institutional restructuring have been governed primarily by a market-driven and state-minimizing logic, leading some scholars in the IPE paradigm to conclude that this deepening interconnection has led to the policy diffusion of neoliberal policies (Harvey, 2011) In terms of its impact on labor market dynamics, the paradigm proposes that labor flexibility is a fundamental aspect of globalization on the two levels, i.e. the firm and national labor markets.

First, IPE acknowledges the effect of globalization on corporate reorganization and flexibility within the firm. In contrast to the neoclassical paradigm, however, institutionalists attribute firm-level strategies towards flexibility not only to technological developments but also to the changing nature of profitability. Prior to the 1970s, large firms maximized profits from increasing economies of scale through productivity-enhancing investments, including the long-term retention of their workforce to accumulate firm-specific skills. Under globalization, financial liberalization and the increasing uncertainty of profiting from production-based activities shifted the focus of large firms towards downsizing core functions and distributing dividends among shareholders from financial activities (Lazonick and O'Sullivan, 2000; Weil, 2014). Combined with capital concentration into transnational corporations, this facilitated firm restructuring into horizontal organization and externalization of production processes increasingly under the control of a concentrated network of corporations (Dicken, 2014). Under this framework, flexibility is perceived by firms as a necessity to make short-term adjustments on labor demand based on rapid changes in economic conditions (Boyer and Sailard, 2001).

Scholars within the paradigm generally concur with the modes of the *flexible firm* identified by Atkinson (1985) but IPE anchors these models upon the power relation between employers and workers. These modes are understood to function as employer strategies which, without strong workers organizations, are often unilateral decisions of employers to restructure institutional arrangements of firms for the purposes of adaptability – the freedom to adjust quickly in response to economic fluctuations.

Building on the categories identified by Atkinson (1985), Regini (2000, pp. 16–17) and Rosenberg (1989, p. 9) qualified each mode of flexibility further as powers of employers at the level of the firm and the labor regulation that each is targeted to reduce, respectively, as illustrated in Table 1.3.

Table 1.3: Modes of Flexibility Under IPE theories

Mode of Flexibility	Managerial power	Labor Regulation Reduced
Numerical flexibility	Managerial power to dismiss employees, replace workers, or use new forms of employment	Laws on dismissals, fixed-term contracts, temporary work, and part-time work
Functional flexibility	Managerial power to reorganize work based on a hegemonic acceptance of a broad definition of tasks implicit in a job as well as existence of internal labour markets, or incentives to vertical or horizontal mobility within company	Legal safeguards on contractually-based limitations of work functions
Wage Flexibility	Managerial power to freely alter wage systems; affect the extent to which wage differentials are governed unilaterally by employers or instead the object of institutional regulation	Policies concerning minimum wages, automatic wage-indexing provisions, or wage-bargaining that prevent wages from freely adjusting to trends in unemployment, productivity, and terms of trade

Source: Author's own summary of Atkinson (1985), Regini (2000), and Rosenberg (1989).

The paradigm also makes careful consideration of *why* employers would choose to prioritize a certain mode of flexibility over others. First, they agree that increasing numerical and wage flexibility are at odds with functional flexibility because the latter rests on a mutual agreement between employers and workers, and the other modes may induce worker insecurity and dissatisfaction. Despite the possibility of combining these modes in the process of downsizing and restructuring, employers are assumed to consider these contradictions as they decide on modes to deploy.

According to scholars in the paradigm, the most important consideration of employers when designing modes of flexibility is the firm's *competitive model* or the type and volatility of demand to which the firm caters. These may either be:

1. *Diversified quality production*: a firm primarily makes use of *functional flexibility* through investment in firm-specific skills in order to cater to higher-income market segments that focus on quality and not price (Sorge and Streeck, 2018);

2. *Functional mass production*: this model caters to product demand based on low prices, and a firm will thus be made more competitive by creating a segmentation within its workforce – with a core of *functionally flexible* core and a periphery with which it can freely adjust its *numerical and wage flexibility* (Boyer and Sailard, 2001); and

3. *Flexible specialization*: most likely to occur in small firms operating on very specialized goods most responsive to changes in demand due to abandoning economies of scale; whose central figure is the entrepreneur and his assistants; where *numerical flexibility* is mainly applied to a small number of employees who are also expected to be *functionally flexible* without mutual consent and benefits, making them more vulnerable to exploitation (Piore and Sabel, 1984).

With respect to the relationship between modes of flexibility and competition, proponents of the regulation approach (RA) make an important intervention, suggesting that these competitive models are not only limited to firms but can be observed as well on the level of nation-states. Since the drive towards securing comparative advantage had been universalized onto the global development agenda, nation-states and sub-national sectors were consequently pressured to make significant modifications to existing institutional configurations, especially in their respective wage-labor nexuses [25]. In the intensification of this process, "two institutional forms: competition and integration into the world economy [have become] the drivers in the transformation and redesign of employment relations" (Boyer, 2014, p. 152).

Under globalization, changes in employment relations therefore were tightly interlinked with the modes of competition and integration into the global economy undertaken by nation-states and sectors therein. These two institutional forms combine into diverging development modes, each creating the conditions for a specific configuration of a wage-labor nexus. In newly-industrializing developing contexts[26], Jessop and Sum (2006) argue that development modes can be differentiated by the variant of exportism that each country or sector undertakes[27]

[25] Boyer (1990, p. 38) originally defined the *wage-labor nexus* as "the type of means of production; the social and technical division of labour; the ways in which workers are attracted and retained by the firm; the direct and indirect determinants of wage income; and lastly, the workers' way of life". Since this definition was conceived in view of explaining Fordist wage relations, later developments in the approach recognized the multitude of developmental trajectories and institutional configuration beyond Fordism, thus extending the concept of the wage-labor nexus to now "centre on relations between power, wage compromise and the institutional determinants of the wage–profit distribution [...] involving concepts of employment systems and relations in its application" (Boyer and Sailard, 2001, p. 46).

[26] Jessop and Sum (2006) describe these as national economies undergoing an active process of structural change to develop complex industrial outputs

[27] Jessop and Sum (2006, pp. 163–165) define *exportism* or exportist accumulation regimes as the "interconnection between external demand-driven virtuous cycle and the overall flexibilization of production and distribution"

The emphasis on the competitive and relational aspects of restructuring labor institutions is in line with the categories of *high-road and low-road* integration paths of labor into a country's competitiveness strategies. The high-road approach focuses on innovation and specialization in high-value-added goods and services, therefore favoring *diversified quality production* and institutions that promote workfare to enable functional flexibility; while the low-road approach draws competitiveness from low labor costs and the ability to adjust rapidly to volatilities of global demand in non-specialized low-value-added activities, closer to *functional mass production* accommodated by institutions that promote numerical flexibility and wage flexibility (Collins, 2003; Milberg and Houston, 2005). Jessop and Sum (2006), Boyer (2016), and Neilson and Stubbs (2016) suggest that exportist development modes in specific spatio-temporal periods can possibly adopt high-road approaches, such as in first-generation Asian Newly Industrialized Countries (NICs) such as Japan, South Korea, and Taiwan; while alternatively, exportist development modes may adopt low-road approaches in constructing their wage-labor nexus, as was the case in countries like Bangladesh and Mexico after the North American Free Trade Agreement (NAFTA).

Notwithstanding the recognition of divergent institutional configurations that late-developing countries have constructed in their integration processes, the IPE paradigm also acknowledges that historically, a number of welfare states in the Global North and import-substituting developmental states from the Global South have been able to construct wage-labor nexuses that effectively functioned to decommodify employment relations through a combination of government policies and collective bargaining institutions. These arrangements took various forms, including Fordist and solidaristic institutions in the Global North as well as early forms of labor legislation and corporatist development regimes in the Global South.

In the post-war period, these political projects of decommodification crystallized the *standard employment relationship* (SER). Building on the studies of Supiot (2001) and Bosch (2004) on the European labor market, Rubery et al. (2018, p. 510) defines the essence of the standard employment relationship to be the "substantive protections against a pure market relationship, jointly provided by employers and the state through employment rights and social protection." Not only did the SER have a social role in maintaining workers' allegiances to the capitalist state (Esping-Andersen, 1990), it also performed an economic role in mass production where higher productivity is considered to be a function of job tenure and within-firm specialization (Boyer, 1990).

Institutional arrangements that upheld the SER were *rights* embodied in legislation as well as collective bargaining agreements. Rosenberg (1989, 13, apud Standing, 1986) summarizes these rights as consisting of:

which manifests itself in how "external pressures have been integrated into domestic modes of calculation so that economic and political forces take account of the complex reciprocal interdependence between domestic and external dynamics".

1. *labor market security* through unemployment insurance and state-provided "full employment";

2. *income security* through legitimized trade unionism and minimum wage legislation;

3. *employment security* through the imposition of rules preventing dismissals and the imposing of costs on employers for laying off workers; and

4. *job security* through work rules incorporated in collective bargaining agreements or in custom and practice.

When the mass production model was hit by structural crises in the 1970s, firms had begun rethinking whether the SER and institutionalized labor protections remained to be the most profitable wage-labor nexus (Regini, 2000; Boyer and Smith, 2001). On the level of national economies, these institutions have been reframed as well to be *rigidities* by the pervasive influence of the neoclassical paradigm and the pressure to maintain competitiveness in a globalizing world.

The result of these factors for countries with institutions based on the SER is a widespread *deregulation* of the labor market. Marsden (1995)) puts forward the view that deregulation means the deconstruction of institutional structures, both state and collective bargaining, whereas Streeck and Schmitter (1985) take the view that deregulation simply refers to the movement away from standardized and centralized forms of negotiations, leading to a more horizontal and less coordinated network of regulations. Regini (2000) intervenes in this debate by proposing that deregulation is a combination of these two extremes, leading to a joint process of deconstruction and decentralization of employment standards. Consistent with the argument put forward by the regulation approach, Gottfried (2014) however insists that even for advanced capitalist countries like Japan with existing institutional arrangements protecting the SER, changing employment patterns is not merely a question of more or less regulation, but redesigning the specific configuration of the regulations in place.

As a consequence, the rights embedded into the SER became increasingly subjected to market-directed flexibility in numerical, functional, and wage terms. The far-reaching impacts of the breakdown of the standard employment relationship led the ILO (2016) to put forward a study that analyzed the diffusion of non-standard employment (NSE) in both developed and developing countries[28].

While it still remains up to debate whether the dichotomized categories of SER and NSE are useful in classifying labor arrangements in developing countries[29], policy measures that

[28]With reference to the ILO (2016) definition of the SER consisting of two crucial elements: (1) indefinite open contracts and (2) subordinate and bilateral employment relationships; non-standard employment (NSE) is simply defined as the inverse of either or both these elements.

[29]The ILO (2016) does acknowledge that in a number of developing contexts, formal institutions that guaranteed the SER may not have been established in the same extent as in the advanced capitalist world. As the regulation ap-

attempted to secure the decommodification of labor amidst the plurality of employment relations were nonetheless beneficial for workers in these contexts. Freeman (2010) makes a very important intervention in his study of how labor regulations operate in developing countries. Contrary to popular belief, the study forwards two central arguments: (1) that there exist diverse institutional arrangements in developing countries but these actually exhibit less diversity than developed countries, and (2) compliance to regulation prove to be more functional and binding than is generally assumed, and is socially beneficial to low-wage workers especially for regulations relating to minimum wages (Freeman, 2010, p. 4660).

In discussing the relevance of institutions to developing contexts, it is necessary to clarify the relationship between employment regulations, underdeveloped and uneven as they may be, and concepts relating to informality – the informal sector and informal employment. The ILO (2016)) remarks that in studies of developing countries, the general tendency is to classify between formal and informal sectors, since a bigger proportion of workers in developing contexts are considered *informal* or insufficiently covered by formal arrangements such as labor legislation or employment benefits, relative to advanced capitalist countries[30]

Neoclassical studies suggest that labor regulations tend to be harmful for countries with large informal sectors in two ways: (1) regulations tend to be *distortionary* as they set wage and employment terms above workers' marginal productivity, which discourage the incorporation of more workers into the formal sector (Sicat, 2004); and (2) these regulations present higher costs especially to small informal enterprises that are already struggling with remaining competitive (Besley and Burgess, 2004). Freeman (2010) contends that these studies are empirically weak, and underestimate the benefits that workers exponentially accrue from improving labor standards. For example, countries with large informal sectors such as Brazil implemented measures that promoted pro-worker regulations in the early 2000s. Evidence shows that contrary to the neoclassical prediction, there had been a significant surge of workers that transitioned from the informal sector to formal employment (Krein and Manzano, 2014). Loayza, Oviedo, and Servén (2005) draws similar conclusions from a cross-country study, suggesting that labor regulations do not significantly contribute to increasing informality. Based on this view, studies by Galli and Kucera (2004) as well as Stockhammer and Onaran (2013) also reject the proposition forwarded by neoclassical economics that labor protection in the formal sector of developing countries will drive a higher number of unemployed workers into the informal sector; highlighting the constitutive role of workers' consumption in creating labor demand. Similarly, a study

proach would insist, the plurality of employment arrangements – embodying characteristics of both SER and NSE – have been observed to historically coexist in developing contexts (Jessop and Sum, 2006). Therefore, attempting to classify their employment relationships between standard and non-standard categories may be counterintuitive. For a more detailed discussion of this debate, see Carré (2016).

[30] In a study that interrogates the concept of *informality*, Tokman (2007) argues that even advanced capitalist countries are witnessing an increase in informal employment within formal sectors due to the spread of non-standard employment arrangements, e.g. self-employment, part-time and zero-hour contracts, and later on in the development of the so-called *gig economy*.

by Fields (2010) reveals that the most important factor in improving the welfare of the lowest-income households in developing countries is the shift from informal to formal employment, which is enabled by the existence of institutions that promote formalization.

1.3.2 Social and Economic Impacts of Labor Flexibility

The most important consideration in terms of policy is the social effects of the institutional restructuring towards flexibility, specifically on the types of jobs produced and the long-term effects of flexible labor arrangements on workers and economic development. Scholars and policymakers from the IPE paradigm generally agree that flexible labor arrangements and institutionalized flexibility have produced negative effects. These are manifested in a new type of labor market segmentation under neoliberal globalization – the shrinking proportion of workers engaged in *decent work* in the primary segment and the expanding secondary segment characterized by *precarious work*.

The theory of labor segmentation is grounded on models of wage determination and job selection in the IPE paradigm. First, these models argue that all workers do not coexist in a single labor market, but that workers form non-competing groups in a multiplicity of labor markets on the levels of the firm, sector, nation and region. Wages in these levels are therefore co-determined by specific institutional arrangements, as well as worker characteristics unrelated to skill or productivity, such as race, age, or gender. Second, a model that simplifies the multiplicity of these labor markets is the *dual labor market*, consisting of a primary segment wherein wages are determined by rules internal to firms such as career experience and seniority, and a secondary segment where low-wage, low-skill jobs and poor working conditions are the norm[31]. Third, another system where this segmentation is observed is in dualist labor markets of developing countries where there clearly existed a segmentation between the capitalist (urban) and the subsistence (rural) labor markets in terms of job characteristics and wage levels, and where mobility between the two segments is likewise limited[32]

[31]This theoretical endeavor arose from analyzing labor markets in the context of Western monopoly capitalism. Specifically Doeringer and Piore (1971) from American old institutionalism first forwarded *dual labor market theory* from the observation of the American labor market, wherein large firms had internal labor markets characterized by stability and mobility, while there existed a large fraction of American workers who have virtually no access to these large firms and were permanently tied to low-wage jobs. Recognizing the limitations of its applicability to non-US economies, there have been very important reconstructions of the theory that attempt to capture the variety of economic contexts and institutional arrangements (Lee and Eyraud, 2008; Grimshaw and Rubery, 2005; Maurizio, 2019).

[32]Lewis (1954, p. 150) writes of this segmentation, "Earnings in the subsistence sector set a floor to wages in the capitalist sector, but in practice wages have to be higher than this, and there is usually a gap of 30 per cent or more between capitalist wages and subsistence earnings." He argues that this gap may be caused by a cost from psychological adjustments, differences in tastes, or union bargaining in the capitalist (urban) segment, but nonetheless argues that the gap increases over time due to higher capital investments in the capitalist segment.

The central idea enveloped within these theories is that labor markets are historically observed to allocate workers into separate segments, between which mobility is limited. This limitation is robust despite improvements in human capital or closing intra-firm gender gaps. These segments can be distinguished by job quality, wage levels, and job stability – all qualities observed to be present in the primary segment and absent in the secondary segment (Rosenberg, 1989; Fields, 2007). Nonetheless, there exist interactions between these two segments; workers in the primary segment seek to protect their shrinking protections while on the other hand, "the secondary labor market has the potential of undermining the security arrangements in the primary sector if costs of production become too low here relative to those in the primary sector" (Piore, 1970, p. 42).

At the onset of neoliberal globalization in the 1970s, several factors necessitated the reformulation of these initial approaches – ranging from the migration boom, the increasing incorporation of women in the labor force, observed intersectoral mobility between the primary and secondary sectors, and lastly, the general environment of increasing uncertainty and variability in labor markets. *New labor market segmentation*[33] accounts for these changes, emphasizing the role of institutional environments in segmentation. Sengenberger (1981) attributes the creation of segments, the institutions that cement them into place, and the shifting of boundaries between segments to active employer strategies towards flexibility. Supporting this, Hudson (2007) presents empirical evidence that while race and sex were the predominant factors that separated segments from the 1940s to 1970s, this was no longer the case in the 1970s to present, where a worker's employment arrangement became as important a factor as race determining membership in the secondary segment.

Hence, new labor market segmentation theories identify three key factors that delineate between segments in this theory: (1) persistence of low wages in labor markets vis-a-vis higher wage jobs, (2) the gender pay gap, and (3) the differentiation between standard and non-standard employment (Grimshaw et al., 2017). These factors highlight the centrality of numerical and wage flexibility to the determination of segmentation under globalization. Kalleberg (2013) argues that this labor segmentation has developed into a structural feature of neoliberal capitalist economies, and not merely a feature of a temporary business cycle that can be expected to disappear along with an economic boom.

As these qualifications tend to overlap, what they commonly emphasize is the weakening of claims to rights and security by workers under flexible labor arrangements. Concurrent with the development of new labor market segmentation theory is the growing policy concern with *job quality* Whereas in the 1970s to the 1990s, the neoliberal policy agenda centered the discussion

[33]Rubery (1978) pioneered the theories of new labor market segmentation, deepening its development through the International Working Party on Labor Segmentation (IWPLS), a network of scholars that perform academic research an policy engagement using the contributions of labor market segmentation.

of workers' welfare on reducing unemployment[34], there has been an emerging recognition by multilateral institutions, including IFIs and regional development banks, that both developed and developing countries are facing challenges in reducing *in-work poverty* or the *working poor*[35]. This emerging concern led to the conceptualization of a dichotomy between *good jobs* vs. *bad jobs* with the former conforming to decent work, while the latter is increasingly recognized to be associated with precarious work (Inter-American Development Bank, 2004; Bank, 2005; World Bank, 2012).

With respect to *decent work*, there appears to be internationally-recognized criteria to describe the concept, namely (1) full and productive employment, (2) rights at work, (3) social protection and the (4) promotion of social dialogue (ILO, 2016). Kalleberg (2016, p. 113) adds to this definition the following dimensions: "economic compensation such as earnings and benefits (e.g., health insurance and pensions); the degree of job security and opportunities for advance- ment to better jobs; the extent to which people are able to exercise control over their work activities and to experience their jobs as interesting and meaningful; and whether peoples' time at work and control over their work schedules permit them to spend time with their families and in other, non-work activities that they enjoy", emphasizing both economic and non-economic aspects of decent work. The author adds that decent work can be classified as the shrinking primary sector under neoliberal globalization, and that the rate of its decline depends on social, political, and economic forces within particular contexts (Kalleberg, 2016).

Precarious work on the other hand is characterized by "low pay, insufficient and variable hours, short-term contracts and limited social protection rights" (Rubery et al., 2018, p. 510). Hewison (2016) adds to this definition by describing the concept as "work that exhibits uncertainty, instability, vulnerability and insecurity where employees are required to bear the risks of work". From these definitions, it is clear that precarity is tightly linked to labor flexibility, specifically numerical flexibility in the secondary segment. This has taken on various qualifications in the literature – *non-standard*, with reference to the standard employment relationship as discussed above (ILO, 2016); *contingent*, "conditional or transitory employment relationships as initiated by the need for labor" which emphasizes that this type of employment is tightly linked with the volatilities within markets (Freedman, 1985), and *externalized* which describes the loosening of legal and social responsibilities between the employer and the employee, in which the latter bears risks associated with employment and demand volatility to a greater extent (Pfeffer and Baron, 1988).

[34] See Fields (2010) for a critique on unemployment as a measure of welfare for developing countries and De Dios and Dinglasan (2015) for a similar critique focusing on the Philippines.

[35] "The World Bank defines working poor as workers with earnings insufficient to maintain the median household above the poverty line. This benchmark may be the official poverty line, the $1 or 2$ a day absolute poverty line or 50 per cent of median per capita consumption expenditures while the ILO defines the concept as the proportion of the employed persons living in a household whose members are estimated to be below the poverty line" (Dewan and Peek, 2007, pp. 6–7).

Studies on the Philippines that draw from institutionalist political economy generally argue that the country followed a low-road approach, especially since it adopted structural adjustment programs that promoted export-oriented industrialization after the debt crisis of the 1980s. In an effort to attract foreign investments, the country engaged in enclave manufacturing in exclusive economic zones, fostering a wage-labor nexus built on institutions promoting numerical flexibility and weakening of collective bargaining (Warr, 1987; Ofreneo, 2013). This model was later on expanded onto the entire labor force and had strongly affected the service sector, whose growth also became heavily dependent on global integration via outsourcing (Patalinghug, 2013; David, 2016).

Conclusion

Neoclassical labor economics draws from the idea of free markets, where flexibility and deregulation enable the self-regulatory role of markets in allocating resources and outcomes. Consistent with this, the neoclassical labor market treats flexibility as an operating principle of labor demand while inequalities in wages and employment are explained by differences in labor supply (i.e. human capital). Labor supply expanded as a result of globalization, hence slowing down the growth of wages and employment in advanced economies while the opposite trend is expected in developing economies. Divergences from this trend, such as in the case of the Philippines, are explained by the paradigm as a result of labor market institutions that introduce rigidities to employment generation and wage determination in the labor market.

The dominant tradition of economic inquiry on labor markets in the Philippines remains to be the neoclassical paradigm. Proponents from this approach claim that slow growth in employment and wages stems from two inhibiting factors: (1) a shortage in skilled human capital and (2) an excessively regulated Philippine labor market. According to these studies, the country's maintenance of rigid labor laws despite its inability to improve human capital has resulted in a stagnant and less competitive labor market relative to Asian economies that stood to benefit from globalization's equalizing effects.

New institutional economics, by centering its analysis on transaction costs, contracts, and strategic choices of firms, explains globalization as a consequence of a widespread reorganization of production driven by firms. The approach has a distinct view of institutions, which are described to be arrangements that reduce uncertainty and inefficiency in market transactions. In this framework, the various forms of labor flexibility are seen mainly as strategic choices that firms may take in consideration of transaction costs. New Institutionalists suppose that the state may, as a governance organization with its own rent-seeking interests, create incentive structures for firms to pursue social upgrading especially in global value chains. However, studies on the Philippines reveal the tensions that underpin social upgrading, as firms' integration also entail a continued utilization of flexible labor arrangements.

Institutionalist political economy assumes that transformations within capitalism are the result of historical and political factors, recognizing that inequalities of power exist among states, firms, and workers. Under neoliberal globalization, these existing power inequalities in turn shape trajectories of transformation and new regulatory environments. As the approach places primacy on the role of institutions in determining labor market outcomes, transformations in institutional arrangements since the 1970s shifted the structural power imbalance in greater favor of employers. This introduces flexibility as the primary axis of segmentation between workers in standard employment vis-à-vis those outside it. According to studies in the paradigm, this new segmentation in the labor market results in the prevalence of precarious and low-wage work in both developed and developing countries.

The institutionalist tradition in the literature on the Philippines draws from multi-disciplinary sources, sharing the observation that the country's adoption of structural adjustment programs led to a *low-road approach* of international competitiveness wherein Filipino workers were compelled to accept lower wages and labor standards in order to attract foreign capital investments under globalization. Studies within the paradigm describe a complex process of institutional reorganization in the labor market, which created several channels of labor flexibility to persist within existing labor regulations. Existing research also emphasize the consequences of labor flexibility, as studies reveal the increasing precarity of formal work since the 1990s.

In consideration of the above schools of thought and existing research agenda, the study will be adopting *Institutionalist Political Economy* as the paradigm to analyze changes in labor flexibility and its effects on wages. Consistent with this paradigm, the development and practice of labor flexibility in the Philippines is deeply interconnected with broader historical and structural forces specific to the country's political economy under neoliberal globalization. In contrast, the Neoclassical and New Institutionalist approaches put forward an ahistorical treatment of the Philippine labor market, of which labor flexibility is a neutral, if not ideal, feature. Hence, these approaches preclude any meaningful analysis of flexibility's negative impacts especially on workers and wages. Building on existing studies by scholars of institutionalist political economy, the remaining chapters will then discuss the process of constructing the Philippine labor market as an institutional configuration based on a low-road integration strategy and the resulting impacts of flexible labor reforms on wage inequality.

Chapter 2

Globalization and the Institutionalization of Labor Flexibility in the Philippines (1970-2010)

Introduction

As globalization accelerated the drive towards flexibility in employment relations, nation-states have widely varying processes of adaptation to the opportunities and challenges presented by intensified global competition among labor markets. Economies in the Global South were heavily affected by the global economic crisis in the 1980s, resulting in declines of output and employment as well as macroeconomic instability from rapidly implemented structural adjustment programs. These incited a downward pressure on employment protection regulations, which were treated by multilateral development institutions and domestic neoclassical policy-makers as costly rigidities in labor markets with high unemployment and low productivity. In response, Global South economies have actively restructured their labor market institutions in accordance with the forms and degrees of labor flexibility suitable to their participation in the global economy.

The study focuses on the Philippine case, wherein adaptation to globalizing forces was characterized by an indiscriminate adoption of trade liberalization and market openness since the 1970s. The Philippine labor market became fully subjected to the demands and risks of the global market through the promotion of flexible labor arrangements. Such transformations in four decades created the conditions for precarity and inequality within the labor market even as the country saw significant potential for inclusive growth in the recent years. However, the inclusivity of the country's development model has been put into question during the growth period of 2010-2017 wherein a significant improvement in the country's productive output failed to translate into a positive shift in the quality of jobs and incomes of Filipino workers.

This chapter aims to answer the research question: *What explains the institutionalization of labor flexibility during the country's process of integrating into the global economy from 1970 to 2010?* I argue that the flexibilization of labor in the Philippines has been institutionalized to serve three primary functions: (1) a source of *competitive advantage*; (2) assisting the entrenchment of *local labor control regimes*; and (3) an *adjustment apparatus* for firms in response to market volatility. Through a review of relevant studies and official government reports, the chapter traces how labor flexibility was employed as a key element in the reorientation of the Philippine economy towards external markets.

Theoretically, this chapter draws from the regulation approach (RA) in institutional political economy which argues that the configuration of the *wage-labor nexus*, a set of institutions that regulate the labor market and thus include flexible labor arrangements, are determined by a country's *mode of development* (Boyer, 1990; Jessop and Sum, 2006). The Philippines' export-oriented development mode from the 1970s onwards became increasingly anchored on external market demand, particularly as the country reoriented its markets towards the objective of attracting foreign investments in industry (from 1970s to 1990s) and services (from 1990s to the 2010s). To facilitate rapid adjustment to the volatilities of external market demand, labor institutions that form the wage-labor nexus functioned to *regulate*, i.e. maintain and expand flexible employment in practice despite the semblance of restrictive formal institutions. This explains the discrepancy between a complex system of labor standards that govern flexible employment and the continued persistence of precarious work in the Philippine context.

The existing literature on labor flexibility in the Philippines is rich with descriptions of its different forms and the consequences of its practice across various industries, regions, and periods. From the standpoint of neoclassical economics, studies have attempted to place the practice of labor flexibility within the objective of reducing unemployment, improving employee satisfaction, and providing evidence for the "stepping-stone" hypothesis. On the contrary, studies from the institutional standpoint emphasize the social context of labor flexibility. They provide insight on the legal and regulatory foundations of the practice, its effects on workers' rights and industrial relations, as well as firm and industry-level dynamics in which these practices are normalized within a particular period. This chapter contributes to the existing literature by outlining the link between globalization and labor flexibility on three levels in its exploration of previous studies: on a national macro-developmental level (Ofreneo, 2013); regional and subnational scale (Kelly and Ebrary, 2000); and on the level of particular industries and sectors exposed to globalization (Kuruvilla et al., 2000).

This chapter is organized as follows: first, the discussion of a political economy of globalization in the Philippines, followed by a conceptual overview of labor flexibility in the Philippines grounds the analysis on definitions and classifications of flexibility in the Philippines. Lastly, the chapter discusses the functions of labor flexibility in the country's globalization on the national, sub-national, and sectoral levels.

2.1 Political Economy of Globalization in the Philippines

The Philippines is a lower middle-income developing economy located in Southeast Asia with an active labor force of 45 million in 2019, which composed 62.1% of the country's working age population and 41.2% of its total population. Throughout the country's history of linkages in the global market, the Philippine economy saw a drastic shift in output and employment from agriculture towards services and to a lesser extent, industrial activities.

The colonial political economy of the Philippines under Spain from 1575 to 1898 was largely dependent on agricultural activities. In response to increasing demands from the Industrial Revolution in Europe since 1820, the Philippines produced sugar, tobacco, fiber and cordage, indigo, coffee, cotton, and *abaca* (hemp fiber) which altogether comprised 90% of the country's commodity exports (Abinales and Amoroso, 2017). Larkin (1982) remarked that because these agricultural exports were also produced in other world regions, they failed to yield significant and sustained markups to form a base of capital for industrial development.

During the American colonial regime from 1899 to 1946, the Philippine economy became more increasingly concentrated on the production of sugar and *abaca* due to preferential trade agreements with the United States. The ownership of agricultural lands for these exports and commercial capital were then concentrated into regional elites, each with separate links to global production chains (Valdepeñas and Bautista, 1977; McCoy and De Jesus, 1982). Because of exposure to external demand shocks and seasonal shifts, the backbone of these production chains were a highly contingent workforce[1] wherein both numerical and functional flexibility were key to output expansion.

The persistence of bilateral trade agreements between the Philippines and the United States for primary commodities in the post-World War II period ensured an external market for these agricultural goods and the continued importation of manufactured commodities even in the absence of a domestic consumer base of the working class (Raquiza, 2013). Nonetheless, the Philippines embarked on two decades of import substitution from the mid-1940s until 1969. Priority industries during this period were: soft drink bottling, vehicle assembly, flour milling, spinning, textile weaving or knitting, and milk canning (Antonio. et al., 2001). These moderate advancements contributed to an increase of 12.7% in manufacturing output while the annual rate of industrial expansion reached 10%. However, several challenges circumvented the deepening of industrial development in the country, including the opposition of landowning capitalists to

[1]The most prevalent labor arrangements during this period was the *cabo system*, widely practiced in sugarcane production in Luzon and Visayas as well as key trading ports (David, 1967). The *cabo system* involves the leasing of manpower through an intermediary contractor with whom the employer negotiates wages, period of employment, and the expected output from workers. Scholars like Kapunan and Kapunan (2006) and Silarde (2020) argue that the prevalence of labor-only contracting in the contemporary labor market can be traced to the persistence of the *cabo system*.

large-scale land reform (Rivera, 1994), the dampening impact of preferential trade agreements with the US on local manufactures (Cuaderno, 1952), and the overvaluation of the Philippine peso (Raquiza, 2013). In addition to these, 78% of Philippine imports were composed of capital goods in 1957, which became the priority of foreign exchange allocations (Takagi, 2014). This led to a preference for capital-intensive industries over labor-intensive industries in import substitution, leaving over 50% of the labor force in the agricultural sector that was not sufficiently developed (Antonio. et al., 2001). Nevertheless, this brief period of industrialization engendered the development of an urban working class as a result of internal migration to metropolitan Manila and neighboring regions.

Import substitution decelerated in the 1960s as the Philippine government implemented a program of *decontrol* which effectively dismantled policies of trade and exchange controls[2] for imported consumer goods and exported manufactures (Baldwin, 1975). Under the imposition of Martial Law, these macroeconomic issues escalated as foreign debt increased by 1140% from 1970 to 1987, an amount that the Philippine government was increasingly unable to service given lower revenues from taxation and a volatile global export market (Lim and Montes, 2000). To address balance-of-payments imbalances, the Philippines thus contracted several stabilization loans from the International Monetary Fund (IMF) with attached policy conditionalities. (Ofreneo, 1985).

Under the policy architecture of economic managers trained in the United States, these conditionalities formed the core of structural adjustment programs in line with the Washington Consensus (Tadem, 2014). These policy reforms included (1) trade liberalization in the form of lowered import tariffs, a floated exchange rate, and entry into multilateral free trade agreements in the 1990s (Bello et al., 2005); (2) the establishment of a depoliticized independent central bank (Clarete et al., 2018) in 1993; (3) privatization of state-owned enterprises and capital account liberalization since 1987 (Lim and Montes, 2002); and (4) export orientation, i.e. shifting the weight of output from import substitution towards production in line with comparative advantage primarily for the global market (Ofreneo, 1984).

While these reforms were initiated during the authoritarian government toppled in 1986, a confluence of political factors ensured their continued implementation even as the country underwent a democratization process in 1986. First, the democratic government that emerged from 1986 People Power Revolution faced several challenges of legitimacy from vestiges of the Martial Law government as well as forces from the Left. To secure its legitimacy, the democratic government sought to tighten the neo-colonial link between the Philippines and the United States through cooperative subjection to an "honor-all-debts" policy and other structural adjustment programs forwarded by the IMF (Mendoza, 2009). Second, the ruling political

[2]Encouraged by the World Bank and Filipino capitalists engaged primarily in commercial trade, policy instruments for industrial development increasingly shifted from import and exchange controls towards tax incentives and tariff discounts (Takagi, 2014).

coalition during the country's democratization period was highly tilted in favor of landowning elites. Unlike several other Asian neighbors, the Philippines did not undertake a comprehensive agrarian reform program that redistributed asset ownership and wealth towards the working classes. As part of the highly exclusive social pact with the ruling coalition, these elites later diversified into the operation of newly privatized industries, including an electricity monopoly, water services, and the transport system in Metro Manila in the 1990s, as well as services-based enterprises such as real estate, retail trade, and export-processing zones in the 2000s (Raquiza, 2013). Third, the persistence of elite domination coupled with the weakening influence of the Left and labor unions on policy-making left little space for the political process to accommodate socially inclusive reforms. Thus, the highly unequal distribution of power among actors in civil society became deeply embedded as the economic elite, together with neoclassically-minded technocrats, set the direction of the globalization process and the prevailing regimes of accumulation therein (Juego, 2015).

As a result of these political decisions, structural adjustment programs led to several important changes in the Philippine political economy during the globalization era. First, growth in output and employment from 1970 to 2010 featured brief boom-bust cycles that are punctuated by crises in the external market and supply shocks in key imported commodities (e.g. petroleum, rice and meat, etc.). As illustrated in Table 2.1, growth occurred in episodic terms up to 5-6% of annual GDP growth before plunging into negative levels in 1984, 1991, 1998 and to a lesser extent in 2009. Between these brief successions of boom and bust, annual growth rate averaged at 3% from 1986 to 2000. Relative to growth rates of Southeast Asian neighbors which demonstrated steady growth and recovery despite being gravely hit by the Asian Financial Crisis in 1997, the Philippines persistently consistently faltered in terms of output growth (Balisacan and Hill, 2003). Bolstered by remittances from migrant workers and export earnings from the electronic semiconductor industry, GDP growth reached 4.9% from 2000 to 2010, close to the average in Southeast Asia (Mitra, 2013).

Likewise, unemployment levels remained high as GDP per capita barely inched upwards, signaling the structural inability of the economy to absorb the growing labor force into productive and gainful employment. The GINI index hovered between 42.9 to 47.7 in the same period, stressing the consistent pattern of high inequality between a narrow economic elite and the working classes (Bello et al., 2005).

In terms of the economic structure, the Philippine economy also saw significant changes throughout its growth period as the economy moved from primarily an agricultural base in the 1950s to a brief period of industrialization and finally, to an economy with services as its largest sector, as reflected in Table 2.2. Some scholars, however, have observed that the services sector until 2010 has been characteristic of low growth and productivity despite consistently having the highest share of employment (Raquiza, 2017; Tuaño and Cruz, 2019).

Table 2.1: Selected Macroeconomic and Labor Indicators (1970-2010)

Year	GDP growth (%)	GDP/capita (US $)	GINI	Unemployment (%)	LFPR* (%)
1970	3.8	1,305.15		6.7	55.3
1971	5.4	1,336.94	41.0	5.3	
1972	5.4	1,369.85		5.4	
1973	8.9	1,450.01		4.8	
1974	3.6	1,459.66		3.2	
1975	5.6	1,498.28		3.8	35.8
1976	8.8	1,585.64		4.8	37.0
1977	5.6	1,629.08		4.5	
1978	5.2	1,667.13		4.0	63.9
1979	5.6	1,713.71		3.5	
1980	5.1	1,753.32		4.8	29.5
1981	3.4	1,764.35		5.4	
1982	3.6	1,778.84		5.5	
1983	1.9	1,763.36		4.9	64.3
1984	-7.3	1,590.34		7.0	
1985	-7.3	1,434.79	45.2	6.1	63.9
1986	3.4	1,444.44		6.4	
1987	4.3	1,467.03		9.1	65.7
1988	6.8	1,525.31		8.3	65.4
1989	6.2	1,578.46		8.4	64.6
1990	3.0	1,585.55		8.1	64.5
1991	-0.6	1,537.64	47.7	10.6	64.6
1992	0.3	1,505.69		9.9	65.0
1993	2.1	1,501.21		9.3	64.7
1994	4.4	1,530.61		9.5	64.4
1995	4.7	1,565.41	42.9	9.5	65.6
1996	5.8	1,619.38		8.6	65.8
1997	5.2	1,665.36	46.0	8.8	65.5
1998	-0.6	1,619.36		10.3	66.0
1999	3.1	1,633.10		9.8	65.8
2000	4.4	1,668.72	47.7	11.2	64.3
2001	3.0	1,683.32		3.7	61.8
2002	3.7	1,709.56			66.2
2003	5.1	1,760.04	46.6	3.5	61.1
2004	6.6	1,838.93		3.5	61.5
2005	4.9	1,893.70		3.8	61.6
2006	5.3	1,958.93	47.2	4.1	61.4
2007	6.5	2,051.23		3.4	61.3
2008	4.3	2,105.11		3.7	61.1
2009	1.4	2,100.66	46.3	3.9	61.4
2010	7.3	2,217.47		3.6	61.4

Source: World Bank World Development Indicators, Estudillo (1997)

Notes:
1. GDP per capita is in constant 2010 US dollars.
2. The definition of *unemployment* was officially modified in 2005, adding a criterion on actively seeking employment. Unemployment data from 2005 onwards are not comparable with prior data.
3. LFPR = Labor Force Participation Rate

Table 2.2: Gross-Value-Added by Sector (1975-2010)

Sector	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**
AGRICULTURE	33.6	25.1	24.6	22.3	21.6	15.9	14.8	13.4
INDUSTRY	28.3	38.8	35.1	35.5	32.1	31.1	30.8	30
Mining and Quarrying	1.5	2.2	2.1	1.5	0.9	0.6	1.1	1.2
Manufacturing	20.0	25.7	25.2	25.5	23.0	22.6	22	19.8
Electricity, Gas, and Water Supply	0.8	1.6	2.8	2.6	2.6	3.0	3.2	3.2
Construction	6.0	9.3	5.1	5.8	5.6	5.0	4.4	5.8
SERVICES	34.4	36.1	40.4	42.2	46.3	52.9	54.4	56.6
Transport, Storage and Communications	3.4	4.6	5.5	5.7	4.7	6.0	6.2	6
Commerce	21.7							
A. Wholesale and Retail Trade		12.2	14.5	14.9	13.7	14.3	18.3	18.2
B. Financial and Insurance Activities		3.9	3.0	4.2	4.1	6.7	5.6	6.8
C. Real Estate		5.2	5.6	5.6	6.8	11.6	6.4	6.3
Public and Private Services	13.0	10.2	11.7	11.9	17.0	21.4		
A. Professional and Business Services							3	4.6
B. Private Health and Social Work							1.9	1.7
C. Other Services							3.9	4.2
D. Public Administration and Defense							4.4	4.3
GROSS DOMESTIC PRODUCT	100	100	100	100	100	100	100	100
GDP SHARE TO GNI	100.4	100.2	101.5	100.5	97.2	94.3	90.9	89.6
NET FACTOR INCOME (% OF GDP)	-0.4	-0.2	-1.5	-0.5	2.8	5.7	9.1	10.4
GROSS NATIONAL INCOME	100	100	100	100	100	100	100	100

Source: National Statistical Coordination Board

Changes in employment composition by sector generally reflect these shifts in productive structure. While sector-specific data prior to 1990 is unavailable, Table 2.3 shows that the agriculture sector used to have the highest share of employment but this gradually declined from 41.2% in 1990 to employing only 30.7& of workers in 2010. Meanwhile the services sector rose from 36.3% in 1990 to an employment share of almost half of the Philippine labor force in 2010.

Despite the adoption of key market reforms as part of its structural adjustment programs from the IMF and the World Bank, the Philippines' process of globalization generated sluggish growth in output and employment. Moreover, there has been a decline in the quality of employment due to widespread practices of labor flexibility since the 1970s.

Table 2.3: Percent Share of Employment by Sector (1990-2010)

Sector	**1990**	**1995**	**2000**	**2005**	**2010**
AGRICULTURE	41.2	39.8	34.3	33.2	30.7
INDUSTRY	14.1	14.5	14.1	14.3	13.9
Mining and Quarrying	0.5	0.4	0.3	0.4	0.5
Manufacturing	9.2	9.2	8.7	8.8	7.8
Electricity, Gas, and Water Supply	0.4	0.4	0.4	0.3	0.4
Construction	4.0	4.5	4.6	4.9	5.2
SERVICES	36.3	37.0	41.5	44.7	48.0
Transport, Storage and Communications	4.5	5.3	6.4	7.0	7.0
Wholesale and Retail Trade	13.0	13.4	14.5	17.5	18.1
Finance, Insurance, and Real Estate	1.8	1.9	2.3	3.1	4.0
Other Services	17.0	16.4	18.3	17.1	19.0
Total Employed	91.6	91.4	89.7	92.2	92.6
Unemployed	**8.4**	**8.6**	**10.3**	**7.8**	**7.4**
Total Labor Force	**100**	**100**	**100**	**100**	**100**

Source: Bureau of Labor and Employment Statistics

2.2 Labor Flexibility in the Philippines: Conceptual Overview

In the literature on labor flexibility, one of the first challenges that arise is distinguishing between various concepts associated with the phenomenon at hand. As Agarwala (2018) demonstrates, terms such as *precarization* and *non-standard employment* that originate from the Global North may not adequately capture the embeddedness of informal or flexible employment in Global South economies even prior to globalization. This insight is applicable to the Philippine case, which necessitates a brief evaluation of concepts.

First, the framework proposed by the ILO (2016) to define employment relations in a dichotomy of standard and *non-standard employment* is based on an assessment of *rights and entitlements* of workers under indefinite, direct employment contracts and those who are not. On the one hand, there is indeed an observed gap in social security and benefits enjoyed by Filipino workers in standard and non-standard employment relationships. On the other hand, the narrow focus of this classification on the dichotomy between these two states of employment is more useful for comparative purposes among countries because the concept of non-standard employment does not account for the processes through which these employment relationships come about.

Second, the discourse of *precarization* (Kalleberg, 2009) is widely used in studies and social movements in advanced capitalist economies. Similar to non-standard employment, it highlights the movement away from norms of long-term employment security, welfare benefits, and comprehensive labor regulations. However, precarization assumes the prior institutionalization of these norms, as manifested in the Fordist welfare states of the post-World War II period. In the Philippines, this was not the case as the formalization of standard employment in the labor market was concurrent with practices of precarious employment arrangements that were already widespread in the 1970s.

While there are similarities in the types of flexible employment arrangements described by these concepts, the chapter's discussion on the Philippines is grounded on *labor flexibility*, a broader concept that covers the historical process by which a country's labor market undergoes transformation to develop its "ability to change the quantity, quality and price of labour inputs to reduce production costs and make output more adjustable to changes in market demand" (Bitonio, 2007, p. 43).

Flexible labor arrangements, on the other hand, refer to the specific forms that flexibility takes, such as "the outsourcing or subcontracting of work, deployment of agency-hired and third-party-managed workers within the company's work premises, and/or direct hiring of workers under short-term employment contracts" (Ofreneo, 2013, p. 435). In Philippine policy circles, labor flexibility is more commonly known as *contractualization*. Whereas *contractualization* in the OECD indicates progress towards formalization or standardization of the employment relationship, the concept has the opposite connotation in Philippine labor relations, wherein contractualization refers to the prevalence of temporary and outsourced labor (Serrano, Marasigan, and Pupos, 2014). Alternatively, contractualization intersects with the local term "end-of-contract," abbreviated as *Endo*, "referring to workers who work on a contract of no longer than five months before he or she is fired and then rehired again for another five-month contract and so on" (Certeza, 2018, p. 3).

These flexible labor arrangements are detailed at length in official government statistics and in the Philippine Labor Code.

The first comprehensive statistical account led by the Philippine government to assess the situation of Filipino workers under flexible labor arrangements is the *Philippine Labor Flexibility Survey (PLFS)* conducted in 1990 as a joint project between the Department of Labor and Employment (DOLE) and the International Labor Organization (ILO). The objective of the PLFS was to "evaluate the extent to which employers, perhaps in an effort to avoid labour costs, bypass certain labour market regulations and enhance market adaptability, rely on non-regular labour or other cost-reducing measures, such as contracting out work" (Windell and Standing, 1992, p. 1). This signifies the recognition of these employment arrangements as a national policy concern as early as the late 1980s. The 1990 PLFS formed the basis for the periodic conduct of surveys to assess the extent of workers under flexible labor arrangements, referred to in official government statistics as *non-regular workers*.

Since then, the situation of non-regular workers was approximated by the Bureau of Labor and Employment Statistics (BLES) and later on the Integrated Statistics on Labor and Employment (ISLE), which defined *non-regular workers* as those employed by their establishments on a non-permanent status. In its surveys, the BLES has made use of the following categories to classify flexible labor arrangements:

1. *Casual workers* are workers whose work is not usually necessary and desirable to the usual business or trade of the employer. Their employment is not for a specific undertaking;
2. *Contractual/project-based workers* are workers whose employment has been fixed for a specific project or undertaking, the completion or termination of which has been determined at the time of engagement;
3. *Seasonal workers* are workers whose employment, specifically its timing and duration, is significantly influenced by seasonal factors;
4. *Probationary workers* are workers on trial period during which the employer determines their fitness to qualify for regular employment, based on reasonable standards made known to them at the time of engagement;
5. *Apprentices/Learners* are workers who are covered by written apprenticeship/learnership agreements with individual employers or any of the entities with duly recognised programmes; and
6. *Agency-hired workers* are workers hired through agencies and contractors to perform or complete a specific job, work or service within a definite or predetermined period and within the premises of the establishment pursuant to a service agreement with a principal.

(BLES, 2012b; BLES, 2012a)

In addition, the quarterly Labor Force Survey (LFS) also conducted by the Philippine Statistical Authority makes use of *non-regular workers* as a subset of wage and salary workers who expect their current employment to last for a period no longer than one (1) calendar year.

The legal definitions of regular employment and flexible labor arrangements are enshrined in the Philippine Labor Code. The specific provisions relevant to regular and non-regular employment in the Labor Code, which have remained unchanged since the Code's enactment in 1974, are summarized as follows:

1. The Labor Code specifies six various forms of employment. The primary form is *regular employment*, "where the employee has been engaged to perform activities which are *usually necessary or desirable* in the usual business or trade of the employer;"
2. Exceptions made to regular employment are (1) *project employment* in which the duration of employment has been determined prior to engagement of the project, and (2) *seasonal employment* where the work or service performed is seasonal in nature;
3. *Casual employment* is a classification wherein the characteristics of regular, project, and seasonal employment do not apply. Additionally, causal employees are workers who render less than one (1) year of service; otherwise, they will automatically be classified as regular employees;
4. *Probationary employment* is the status accorded to workers who must satisfy the criteria specified by the employer for a maximum period of six (6 months), after which they can be terminated for just cause or will automatically qualify as regular employees; and

5. *Contracting or sub-contracting*, in which an employer makes use of the services of another firm for particular work or services is permitted, supposing two exceptions. First, the Secretary of the Department of Labor holds the power to restrict or prohibit contracting out labor or may set specific guidelines on its use. Second, the Code cautions against the use of *labor-only-contracting*[3]

As the above provisions describe, there are two characteristics that separate regular workers from those engaged in flexible forms of employment: (1) performance of work or service that is "usually necessary and desirable" to the employer's business, and (2) minimum tenure in a workplace for at least one (1) year (Marasigan and Serrano, 2014). These provisions in the Labor Code, however, have been subjected to various interpretations by jurisprudence as applied to arbitration and Supreme Court rulings on employment relations. In practice, defining the regularity of employment and the existence of an employer-employee relationship are "questions of fact" on a case-to-case basis rather than a standard applicable to all workers (Azucena, 2010).

2.3 *Competitive Advantage* on the National Level

In general, studies on labor flexibility in the Philippines focus on the national level in the context of the entire labor market and existing formal institutions that govern employment relations. This section traces the process of instituting labor flexibility on the national level by discussing (1) the extent of non-regular employment as described by official statistics and international organizations; (2) the interconnection between national development policies and labor flexibility; and (3) the structure and issues of formal institutions that govern flexible labor arrangements.

Since the late 1970s, studies have documented that Filipino workers are extensively employed under flexible labor arrangements across various categories and economic sectors. Tidalgo and Esguerra (1984) As early as 1990, the PLFS indicated that more than two-thirds of firms in the Philippines employed workers under flexible labor arrangements, i.e. casual/temporary through manpower agencies, contractual or short-term, probationary, and subcontracting. The PLFS also inquired on the reasons used by firms for hiring non-regular labor. The study revealed that 36% of firms employed non-regular workers as a substitute for hiring regular employees. Likewise, nearly one-third of firms were found to terminate employment of regular workers at the end of the specified contract, with small firms more likely to renew or extend contracts than larger firms (Windell and Standing, 1992; EILER, 2000).

[3] *Labor-only-contracting* is a situation "where the person supplying workers to an employer does not have substantial capital or investment in the form of tools, equipment, machineries, work premises, among others, and the workers recruited and placed by such person are performing activities which are directly related to the principal business of such employer." (Article 106, Labor Code of the Philippines)

Studies on the extent of flexible employment in the national labor market were continued by BLES. For the period of 1991-2010, Table 2.4 shows the distribution of non-regular workers among the aforementioned categories of non-regular workers[4].

Table 2.4: Percent Distribution of Categories of Non-Regular Workers (1991-2010)

Category of Worker	**1991**	**1997**	**2003**	**2008**	**2010**
Casual Workers	4.1%	4.7%	6.1%	4.9%	6.5%
Contractual/Project-Based Workers	7.0%	14.0%	11.8%	11.9%	17.0%
Seasonal Workers			1.4%	1.1%	1.1%
Probationary Workers			4.6%	5.6%	6.9%
Apprentices/Learners			1.2%	0.7%	1.0%
Commission-Paid Workers	4.2%	5.9%			
Part-Time Workers	1.5%	2.2%			
Task Workers	0.7%	1.4%			
Non-Regular Workers (Directly Employed)	17.6%	28.2%	25.0%	28.1%	32.5%
Agency-Hired Workers (Indirectly Employed)				10.80%	10.10%

Source: Bureau of Labor and Employment Statistics

From 1991 to 2010, the share of non-regular workers in total employed workers nearly doubled from 17.6% to 32.5%. These non-regular workers include all other categories except for a separate category, which was established since 2010 to capture the growing practice of indirect employment through agency hiring. Of all workers surveyed, the proportion of Agency-Hired Workers who are not directly employed is consistently high at above 10%.

In all the establishments surveyed from 1991 to 2010, it appears that Contractual/Project-Based Workers have the highest share among all categories of non-regular workers and recorded the highest increase from only 7.0% to 17.0%. To a lesser degree, casual workers also recorded an increased share by 2.4% from 1991 to 2010 while the share of probationary workers also grew by 2.3% from 2003 to 2010. The share of seasonal workers and apprentices/learners mildly fluctuated and declined from 2003 to 2010.

Another notable change in categories is the exclusion of commission-paid workers, part-time workers, and task workers from 2003 onwards, replaced by seasonal, probationary, and apprentice workers. This is because the former categories were a result of the PLFS and the *Survey of Specific Groups of Workers* conducted from 1991 until it was discontinued in 1997. This exclusion of the flexible labor arrangements in terms of piece-wise or time-wise work reflected the decline in importance of *functional* flexibility of employment. Categories of seasonal, probationary, and apprentice workers which have been included after 1997 suggest the growing dominance of *numerical* or external flexibility in the national labor market (Erickson et al., 2003).

[4]The measure of Non-Regular Workers (Directly Employed) is the sum of all other categories except for Agency-Hired Workers (Indirectly Employed) which are separately measured by the BLES.

While the statistical picture above already points to a pervasive trend of flexible employment, scholars such as Kuruvilla et al. (2000) and Ofreneo (2013) draw attention to the potential underestimation of these surveys due to the "invisibility" of some flexible labor arrangements such as home-based subcontracting in the 1990s.

The PLFS also documented the characteristics of firms that employ non-regular workers. They found that foreign-owned firms were 10% more likely to hire temporary workers than Filipino-owned firms. Furthermore, firms that are oriented to the export market are found to be more reliant on flexible labor arrangements and more likely to retrench during economic downturns than those oriented to the domestic market. The PLFS recorded that the most frequent responses given by firms on why they choose to hire non-regular workers are demand fluctuation for their products (28.2%), labor shortage in a given production period (22.8%) and market uncertainty (16.4%). (Windell and Standing, 1992; Lim, 1997). These findings were supported by the BLES survey in 1997, which found that firms are more likely to engage in subcontracting when they are linked to foreign businesses and funded by foreign capital (Macaraya, 2006).

Studies on national labor markets also emphasize the social and economic consequences of flexible labor employment. Workers under subcontracting arrangements since the 1970s tend to be deprived of minimum health and safety standards, which are especially important given that a large share of the workforce involves women and youth (Vasquez, 1987; Pineda-Ofreneo, 1988; ILS, 1997). Workers under flexible labor arrangements receive less health, social security, and skill-related benefits than their regular counterparts. This is exacerbated by the concentration of flexible labor relations among unskilled and semi-skilled jobs, limiting their long-term mobility and skills development (Windell and Standing, 1992; Sibal, Amante, and Tolentino, 2008; Asuncion, 2013). In the 2000s, the effect of flexible labor arrangements on individual workers' bargaining power and collective bargaining became more apparent. The gaps in security of tenure have led employers to use flexible labor arrangements as a way to weaken union formation and existing labor unions (Erickson et al., 2003; Macaraya, 2006; Certeza, 2018).

Another dimension that assesses the extent of labor flexibility in the Philippine labor market is the comparative perspective used by international organizations, including multilateral development institutions and private organizations. Implicit these indices is the opposition between rigidity and flexibility in national labor markets, supposing that flexible labor market institutions contribute to overall economic efficiency and employment generation (Felipe and Lanzona, 2006). In a study assessing the performance of countries that implemented structural adjustment programs, Forteza and Rama (2001) report that the Philippines has the highest aggregate labor rigidity index among the countries covered in East Asia and the Pacific Islands.

In line with this, the World Bank has consistently indicated in its country assessment reports that the Philippines is among the most heavily regulated labor markets in the world. In the World

Bank's *Global Competitiveness Report* in 2014, the Philippines ranked as the 91st among 144 economies in the labor market efficiency scale. According to the report, this indicates low labor market efficiency due to "rigid hiring and firing practices [and] limited flexibility in wage determination" (World Bank, 2016, p. 20). Likewise, the World Bank's *Labor Market Review* in 2016 considers these rigid regulations as a contributing factor to the segmentation of the labor market because of the high costs associated with formal employment. Thus, the World Bank recommends "reducing these distortionary effects [through] better aligning of minimum wage with worker productivity, and making the regular employment contracts more flexible" (World Bank, 2016, p. 19).

Bitonio (2007) notes that while these indices are based on a surface-level assessment of national legal frameworks that regulate labor and employment regardless of implementation, these recommendations for flexibilization based on comparisons relative to other developing economies are also systematically done through national policy pronouncements since the 1980s.

EILER (2000) notes that the Medium-Term Philippine Development Plan (MTPDP) issued by the national government since 1987 has advocated for the use of flexible companies and flexible labor arrangements in order for the Philippine labor market to compete in a globalized environment. This drive towards flexibilizing the labor market in the name of maintaining international competitiveness has also been reiterated in later MTPDPs in 1992 (Kelly and Ebrary, 2000) and 2004 (Felipe and Lanzona, 2006).

In line with this, neoclassical technocrats also make two central arguments: the Philippines has a heavily regulated labor market, which leads to the prevalence of unemployment and temporary employment contracts (Sicat, 2004) and that temporary employment contracts are beneficial to both workers and employers since these hiring practices improve the efficiency of labor markets and are able to resolve the high incidence of job-skill mismatch in the Philippine labor market (Paqueo and Orbeta, 2016). This is in accordance with the assumption that stringent employment regulations provide additional costs, both in unit labor costs and transactional costs, and disincentives to investors who create employment opportunities. Hence, these studies recommend that restrictions on flexible hiring arrangements must be eradicated in order to reduce unit labor costs and facilitate investments that can reduce unemployment. These views found resonance in employers' organizations such as the Employers' Confederation of the Philippines (ECOP) and the Philippine Association of Local Service Contractors (PALSCON) which have actively engaged in legislative lobbying against stricter regulations on flexible employment arrangements (ILS, 1997).

Beyond pronouncements, there are two development policies on the national level that directly influenced the institutionalization of labor flexibility. The first is the promotion of *export-oriented industrialization* (EOI), which placed a primacy on foreign direct investments as the engine of growth and employment, as domestic capital formation in the previous decades was considered inadequate to boost economic growth (Lim and Montes, 2000). To attract foreign investments in labor-intensive industries, the government (1) developed an array of *investment incentives* such as tax exemptions and discounts given to export-oriented firms in specialized areas called *export-processing zones* (EPZs) and (2) promoted the Philippines to the global market as an investment destination with a cheap, educated, and English-speaking labor force (Kelly and Ebrary, 2000; Kuruvilla et al., 2000). In the absence of technical advantages or a large domestic market with adequate purchasing power, low-cost Philippine labor was thus marketed as the country's *competitive advantage*. Over time, this reliance on low-cost labor to attract investments could only be sustained by deepening practices of labor flexibility. Flexible employment arrangements enable firms to avoid higher labor costs associated with indefinite and direct employment relations, allowing them to hire and re-hire workers of similar skills on entry-level wages over long periods of time, subject to market demand (Bitonio, 2008).

The second development policy that has exercised profound impacts on labor flexibility is the prevalence of *labor export* or the deployment of Overseas Filipino Workers (OFWs) since the 1970s. This practice has cemented the Philippines as the "world's premier 'global enterprise' of labor" and a "labor brokerage state [that] actively prepares, mobilizes, and regulates its citizens for migrant work abroad" (Rodriguez, 2010, p. xii). The country deployed around 200,000 overseas workers in 1980 and this number ballooned to almost 1.5 million workers deployed only in 2010. In 2006, the number of total overseas Filipino workers constituted nearly 25% of the country's active labor force (Agunias and Ruiz, 2007). Labor export has benefited the Philippine state in two ways: (1) international remittances form at least 90% of the country's Net Primary Income and boost its dollar reserves, and (2) overseas employment provides a release valve for domestic unemployment (Kelly and Ebrary, 2000; Ofreneo, 2015). The impact of labor export on the institutionalization of labor flexibility has manifested beginning in the late 1990s, when remittances from OFWs bolstered domestic consumption of nontradeable goods and services. Raquiza (2014) suggested that the active labor export policy generated a pivotal change to the configuration of Philippine capitalism: business elites who have historically invested in agriculture and industry have now shifted the weight of their investments on the domestic services sectors catering to the consumption of OFW families. This in turn bolstered the demand for flexible employment arrangements in service of the new middle classes who are also subjected to the volatile global market (Ortega, 2016).

Concurrent with these national development initiatives, formal regulation likewise evolved to accommodate flexible employment arrangements. Contrary to neoclassical accounts that portray the Philippines as a highly rigid labor market, a close examination of these *de jure* laws and agencies suggests that these institutions provide *de facto* spaces for employers to maintain flexible employment. There are three main sources of labor regulation that function towards this aim: namely the Labor Code, the Department of Labor and Employment, and the Philippine courts.

First, the key legislation on employment relations is the *Philippine Labor Code*, first enacted in Presidential Decree No. 442 in 1974 as a political instrument with two objectives: (1) to pacify the mounting resistance of militant organized labor to the newly-imposed Martial Law and (2) to assert the centralization of setting labor standards in the Executive Branch to guarantee industrial peace for the attraction of foreign investments (Villegas, 1988). As described in the previous section, the Labor Code contains provisions that outline several flexible labor arrangements, rather than a straightforward account of entitlements accorded to all workers. Hence, the Labor Code already engineered a hierarchy between probationary, casual, and subcontracted employees with varying degrees of protection. Windell and Standing (1992) and Felipe and Lanzona (2006) argue that the comprehensive coverage of the Labor Code on various types of employment do not deter firms from utilizing these flexible labor arrangements.

Second, the Department of Labor and Employment (DOLE) is tasked with two primary responsibilities with regard to flexible labor arrangements: to develop Department Orders (DOs) that restrict or legitimize the use of casual and triangular employment relationships; and provide grievance mechanisms such as arbitration and labor inspection for workers contesting their entitlements and employment status (Macaraya, 2006). First, grievance mechanisms have been reported to suffer from long-term procedural delays which work in the interest of employers since cases may take years to resolve (Bitonio, 2007). More importantly, Department Orders have become the most contentious policies as they can range from providing parameters for legitimate indirect employment relationships (Department Order No. 10 in 1997) to instituting capital requirements for third-party service contractors (Department Order 18-A in 2011), both of which effectively function to maintain flexible labor arrangements.

As a direct result of this deliberate mystification of labor subcontracting by Department Orders, disputes on flexible labor arrangements in the Philippines are largely contested through technical legal cases in the National Labor Relations Commission (NLRC), patterned after the legalistic approach of the Court of Industrial Relations (CIR) in the American colonial period (Erickson et al., 2003). Despite the delegation of all labor disputes to the NLRC, employers and workers may still appeal decisions to the higher courts. This created a situation where decisions of the Supreme Court became the centerpiece of regulation on flexible employment arrangements, more important than the Labor Code itself (Bitonio, 2007). The courts have therefore crafted their own standards of evaluating each complaint, which make this institution more prone to inconsistent decisions. Since these drawn-out legal processes are costly to both employers and workers, complaints on flexible employment relationships would rather be avoided in favor of retaining employment and business stability (Cristobal and Resurreccion, 2014).

On the national level, flexible labor arrangements have expanded and transformed from the 1970s to 2010. The Philippines' integration of its labor market into globalization through export-oriented industrialization and labor export, both extremely sensitive to changes in external market demand, have created the conditions where flexibility functions as the economy's *competitive advantage*. hese development policies are reinforced by a complex array of laws and regulatory bodies that effectively permit the deepening of labor flexibility in the Philippines.

2.4 *Local Labor Control Regimes* on the Subnational Level

On the subnational level, the Philippines is divided into seventeen administrative regions grouped together geographically despite the heterogeneity of economies and cultures therein. The establishment of these regions from loosely connected provinces and cities is itself an amalgamation of interests related to the country's globalization process. Administrative regions are alternatively referred to as *developmental regions*, which highlights their relationship with development policy. When developmental regions were first instituted shortly after the declaration of Martial Law in 1972, it had two primary objectives: to organize the harmonization of local policies in preparation for the attraction and entry of foreign capital (Kelly and Ebrary, 2000) and to encourage local development in order to reduce disparities that already existed among regions (Manasan and Chatterjee, 2003).

This broad decentralization of development policy was supplanted by President Aquino's more comprehensive promotion of subnational autonomy through the *Local Government Code* of 1991, which decentralized national fiscal and administrative functions to provinces and cities. In the mid-1990s, President Ramos embarked on a platform to establish the Southern Tagalog region as a premier foreign investment hub, while President Arroyo later on planned to institute Super Regions for lagging regions to leapfrog on economically productive centers (Ortega, 2016).

However, as Table 2.5 and Table 2.6 show, the objective of equitable regional development and decreasing inequality among regions was not achieved throughout the globalization period. Instead, output and employment have become even more concentrated in three adjacent regions, namely the National Capital Region (Metro Manila), Region III (Central Luzon) and the Region IV (Southern Tagalog Region). Of the two development objectives, Kelly and Ebrary (2000) argues that regional equity has been marginalized in favor of subnational competition for foreign investment attraction, forming a core-periphery relationship between the three central regions and the rest. Decentralization efforts have instead deepened the entrenchment of local political families in elected positions, leading many scholars to describe subnational Philippine politics in terms of *bossism* (Sidel, 1999) and *cacique* democracy (Anderson, 2010), both pertaining to the historical dominance of oligarchic elites in the subnational political sphere.

In the discussion of labor flexibility, the importance of the subnational level lies in the dynamic interaction between global, national, and local actors in institutionalizing flexibility in local labor markets. Not only is flexibility constituted by the entry of global capital into the

Table 2.5: Regional Shares of Output, 1975-2000 (%, 1985 prices)

Region	**Name**	**1975**	**1986**	**1992**	**2000**
NCR	NATIONAL CAPITAL REGION	30.1	28.0	30.0	31.1
CAR	CORDILLERA ADMINISTRATIVE REGION			1.9	2.3
I	ILOCOS	4.2	4.7	2.8	3.2
II	CAGAYAN VALLEY	2.7	2.6	1.9	2.3
III	CENTRAL LUZON	9.3	9.1	9.8	8.9
IV	SOUTHERN TAGALOG	14.8	15.7	15.8	15.2
V	BICOL	3.5	3.3	3.1	2.7
VI	WESTERN VISAYAS	8.7	6.6	7.4	7.0
VII	CENTRAL VISAYAS	6.5	6.8	6.6	6.8
VIII	EASTERN VISAYAS	3.2	2.7	2.4	2.4
IX	WESTERN MINDANAO	2.5	3.6	3.0	3.2
X	NORTHERN MINDANAO	4.2	5.5	5.2	4.9
XI	SOUTHERN MINDANAO	6.9	7.5	6.8	6.7
XII	CENTRAL MINDANAO	3.3	3.9	3.4	3.3
	PHILIPPINES	**100**	**100**	**100**	**100**

Source: National Statistical Coordination Board

labor market or by nationally-determined development policy, local actors jointly determine the forms and stability that flexibility takes. The confluence of institutions that shape and maintain flexible labor relations on the subnational level can be conceived as a *local labor control regime*[5]. This dynamic interaction between local actors to maintain and reproduce institutions of labor flexibility in the core regions are examined here.

The labor markets of these three core regions share two important features. First, the concentration of productive employment and adequate infrastructure within these areas has generated waves of rural-urban migration. Surpluses in local labor supply generated by these movements have led to the expansion of informal sectors and the increasing competition for employment among densely populated cities of these regions (Kelly and Ebrary, 2000; Felipe and Lanzona, 2006). Second, processes of urbanization to accommodate spaces for externally-sourced demand were characterized by accumulation by dispossession. The development of industrial enclaves, real estate, and retail expansion since the 1970s in these core regions are characterized by systematic demolitions and large-scale land acquisitions that violently displaced working class communities, driving workers into deeper precarity and willingness to take on flexible employment (Shatkin, 2009; Ortega, 2016).

[5]Jonas (1996, p. 328) conceptualized the *local labor control regime* to "capture the relations of local reciprocity operating within local labour markets. It encapsulates the social totality of spatial practices involved in the integration and co-ordination of production and labour reproduction and the gamut of practices, norms, behaviours, cultures and institutions within a locality through which labour is integrated into production

Table 2.6: Regional Shares of Employment, 1976-2010 (% Share / Total Employed)

Region	Name	1976	1986	1992	2000	2010
NCR	NATIONAL CAPITAL REGION	12.5	11.0	12.2	13.1	12.1
CAR	CORDILLERA ADMINISTRATIVE REGION			2.1	1.9	2.0
I	ILOCOS	7.6	7.0	5.6	5.6	5.3
II	CAGAYAN VALLEY	4.7	5.1	4.4	4.1	3.9
III	CENTRAL LUZON	9.7	9.1	9.4	9.7	10.3
IV	SOUTHERN TAGALOG	11.9	12.6	13.1	14.6	15.8
V	BICOL	6.7	7.5	7.4	6.1	5.7
VI	WESTERN VISAYAS	10.4	9.2	9.1	8.3	8.3
VII	CENTRAL VISAYAS	8.8	8.8	7.8	7.4	7.8
VIII	EASTERN VISAYAS	6.0	6.5	5.7	4.9	4.6
IX	WESTERN MINDANAO	4.7	4.9	3.9	4.0	3.8
X	NORTHERN MINDANAO	5.8	6.1	6.3	4.2	5.2
XI	SOUTHERN MINDANAO	6.7	7.3	7.6	7.2	4.8
XII	CENTRAL MINDANAO	4.6	4.9	3.4	3.8	4.5
CARAGA	CARAGA				3.2	2.7
ARMM	AUTONOMOUS REGION IN MUSLIM MINDANAO				2.7	3.2
	PHILIPPINES	**100**	**100**	**100**	**100**	**100**

Source: BLES Yearbook of Labor Statistics

Moreover, two of these three core regions were the largest sites of export-processing zones - the *Bataan Export Processing Zone* (BEPZ) established in Central Luzon and the *Cavite Export Processing Zone* (CEPZ) in Southern Tagalog. Each of these zones represent distinct local labor control regimes in different periods of incorporation into the global economy.

The BEPZ was established in 1972 originally as the *Bataan Free Trade Zone*, the first flagship project of the Marcos administration to signify its commitment towards export orientation in the wake of the country's structural adjustment loan in 1971 (Remedio, 1996). Under the sole jurisdiction of a national agency, the sparsely-populated locality of Mariveles in Bataan was converted into an industrial enclave for transnational corporations to set up factories employing low-skilled workers into labor-intensive industries such as garments, electronics, and automotives. Several studies have documented the harsh working conditions faced by workers, mostly female migrants from nearby provinces aged 17-24, in the BEPZ. Flexible labor arrangements employed here consist of casual work employed for six months or less (McKay, 2004), payment of probationary-level wages despite extended hours of work (Kelly and Ebrary, 2000), and the prevalence of subcontracting via domestic outwork for piece-wise wages outside the factory (Pineda-Ofreneo, 1988). Aside from these arrangements, firms within the BEPZ are known to engage in mass layoffs in the event of economic downturn or labor strikes (Snow, 1978). In addition, the dependence of these labor-intensive firms on imported raw materials have made their workers more vulnerable to shocks in external market demand (Remedio, 1996).

On the other hand, the CEPZ in Region IV was established in 1980 but did not begin its manufacturing activities until the early 1990s. Although the CEPZ is also publicly managed, it has operated in much larger capacity and greater diversity than firms in the BEPZ. TNCs and local investors that locate in the CEPZ tend to be a mix of labor-intensive and capital-intensive industries (Remedio, 1996). The CEPZ also has the highest concentration of firms exporting semiconductors and electronic parts, which has increasingly become the center of the Philippine export basket since the 1990s. Brought about by this diversity, the CEPZ also has widely varying forms of flexible employment. Firms engage in either *numerical flexibility* through the continued hiring of workers on short-term contracts and third-party agencies; *functional flexibility* through reorganizing and modernizing the production process; or a mix of these two types to produce an internal labor market within firms with both permanent skilled workers and a wider pool of temporary low-skilled workers (McKay, 2004). Workers under flexible employment arrangements are doubly burdened by the lack of protection against safety and health hazards as employers refuse to provide medical benefits in cases of industrial accidents (Lu, 2007).

While these conditions of flexible employment are also found elsewhere, what's unique to these EPZs in Regions III and IV is the interplay of national and local institutions in shaping employment relations. First, the decentralization of national regulatory functions to local bodies gravely affected outcomes of development and flexibility. One such function is the setting of minimum wage floors on a regional basis through the *Regional Tripartite Wage and Productivity Boards* (RTWPB). The gaps between regional wages have contributed to location decisions of investing firms, but the plurality of these wage levels tend to maintain sticky floors despite improvements employment and productivity within these regions (Macaraya, 2006; World Bank, 2016). Similarly, the DOLE has decentralized a number of its grievance mechanisms to protect against precarious flexible employment, including labor inspection and arbitration, to Regional Directors. This presents an additional complication to an already arduous process of resolving employment insecurity (Bitonio, 2007).

Second, local government units perform the most active role in integration flexible employment in the development agenda and the everyday functioning of firms that employ them. To attract investments towards their regions, local governments directly communicate with both national agencies and investing firms. This may be in the form of promotions that directly advertise the low cost of labor relative to other regions or competing countries (Lim, 1978). It may also take the form of declaring the zones as "Industrial Peace Zones," effectively no-union/no-strike areas to appease firms that are cautious of profit losses in case workers under precarious and flexible conditions begin to organize. Local governments may also deploy repressive police forces or militia to implement this policy (Scipes, 1996).

While this may appear to be in clear violation of workers' freedom of association enshrined in the Labor Code, implicit in the establishment of EPZs is the willingness of the government to marginalize the protection of these rights in favor of investments, whose employment generation is argued to provide net gains to workers in these regions (Bitonio, 2007). In the CEPZ, recruitment agencies managed by local political elites responsible for providing a pool of temporary workers. Given the widespread poverty in the margins of these regions, the unemployed poor are more than willing to accept these flexible labor arrangements from local labor brokers despite their risks (Ofreneo, 2013).

Aside from local governments, informal institutions such as working-class communities are likewise involved in the reproduction of flexible employment relations. Workers themselves participate in the recruitment process into flexible employment through their social networks (Viajar, 2009). In the 1980s, working class communities have also been central to the precarious practices of domestic subcontracting by creating a network of homeworkers engaged in waged piece-work (Pineda-Ofreneo, 1985; Kelly and Ebrary, 2000).

Evidence shows that the assemblage of these *local labor control regimes* have been effective in allowing firms to jointly implement flexibility of employment and capital mobility, especially in periods of recessions. Since large enterprises with 100-500 employees are concentrated in these zones, these economic shocks tend to have a stronger impact on local labor markets. Mass layoffs of 20,000 employees at a time as well as factory shutdowns have occurred from 1980 to 1985 in the BEPZ and from 1997 to 2002 in the CEPZ as investors suffered lower market demand from the global debt crisis and the Asian economic crisis respectively (McKay, 2004). Competition from labor markets in China and Vietnam with lower labor costs and higher technical competency have also encouraged labor-intensive transnational firms to relocate investments since the early 2000s, leading to questions on the sustainability of employing flexibility through local labor control regimes (Erickson et al., 2003; Ofreneo, 2015).

2.5 *Adjustment Apparatus* on the Sectoral Level

The integration of markets into the global economy has drawn attention to the importance of economic sectors, especially those increasingly exposed to global circuits of capital and labor, in the discussion of labor flexibility. As the studies in this section illustrate, sectors in the Philippines have undergone diverse paths of restructuring in order to adapt to changes brought about by external constraints and domestic policy decisions. Within these sectors, flexibility serves as an *adjustment apparatus* through which firms within particular sectors manage gradual surges, declines, and fluctuations in demand.

This section proceeds by providing an overview of the distribution of workers under flexible labor arrangements by economic sectors, followed by a discussion on how globalization has impacted particular sectors and the structure of their workforce.

Table 2.7 displays the share of non-regular workers in total employment in each sector of the Philippine economy[6]. Among the sectors in Table 2.7, non-regular workers can be found in all sectors albeit in varying degrees since 1997. Of the workers employed in the Construction sector, more than half up to 65.4% are non-regular workers. More than 30% of workers in Hotel and Restaurants as well as Real Estate, Renting, and Business Activities have also been employed on non-permanent contracts from 2003 onwards. Similarly, approximately a quarter of workers employed in Mining and Quarrying, Manufacturing, Wholesale and Retail Trade, and Private Educational Services are considered non-regular workers, exhibiting a general upward trend from 2003 to 2010.

Table 2.7: Percent Share of Non-Regular Workers in Non-Agricultural Sectors (1997-2010)

Sector	**1997**	**2003**	**2008**	**2010**
Mining and Quarrying	2.0%	12.0%	43.1%	26.1%
Manufacturing	19.7%	24.5%	22.3%	24.3%
Electricity, Gas, and Water Supply	20.3%	12.7%	17.2%	18.3%
Construction	66.0%	54.3%	52.2%	65.4%
Wholesale and Retail Trade	31.0%	22.2%	23.5%	25.7%
Transport, Storage, and Communications	19.7%	15.3%	12.6%	11.6%
Hotels and Restaurants		36.8%	30.4%	35.7%
Financial Intermediation		6.1%	7.5%	7.7%
Real Estate, Renting, and Business Activities		40.0%	34.6%	37.7%
Private Educational Services		24.1%	19.4%	24.3%
Private Health and Social Work		15.3%	14.5%	17.0%
Financing, Rental, and Business Activities	40.0%			
Community, Social, and Personal Service Activities	27.2%	24.6%	16.8%	18.3%
Nonregular Workers (% of Employed in All Sectors)	**28.2%**	**25.0%**	**24.3%**	**27.9%**

Source: Bureau of Labor and Employment Statistics

On the other hand, Table 2.8 displays the share of non-regular workers in each sector in the total number of non-regular workers in all the establishments surveyed. In contrast to Table 2.7, Table 2.8 shows that the highest number of non-regular workers among all sectors can be found in Real Estate, Renting, and Business activities (which rose from 15.7% in 2003 to 30.3 % in 2010) as well as Manufacturing (whose share ranged from 23-37.6% from 1997 to 2010). This is followed by the Wholesale and Retail Trade sector as well as Construction, both of which have more than 10% of non-regular workers among all workers on non-permanent contracts.

In a study on macro-sectoral employment under globalization, Lim (1997) has identified the sectors most responsive to external demand shocks, namely Manufacturing and Business Ser-

[6] 1997 is the earliest year where data on non-regular employment in economic sectors is available. Since 2003, the BLES has excluded the Agriculture, Forestry, and Fishing sector from its survey of establishments.

Table 2.8: Percent Share of Non-Regular Workers in Economic Sectors in Total Non-Regular Workers (1997-2010)

Sector	**1997**	**2003**	**2008**	**2010**
Nonregular Workers (All Sectors)	**100%**	**100%**	**100%**	**100%**
Mining and Quarrying	0.3%	0.5%	1.5%	0.6%
Manufacturing	24.8%	37.6%	28.1%	23.8%
Electricity, Gas, and Water Supply	1.6%	1.4%	2.1%	1.7%
Construction	12.2%	6.8%	6.8%	10.1%
Wholesale and Retail Trade	14.7%	12.7%	11.8%	11.0%
Transport, Storage and Communications	5.2%	4.8%	3.2%	2.3%
Hotels and Restaurants		8.6%	6.3%	8.2%
Financial Intermediation		1.2%	1.8%	1.3%
Real Estate, Renting and Business Activities		15.7%	29.0%	30.3%
Private Educational Services		7.2%	6.1%	6.8%
Private Health and Social Work		1.4%	1.8%	1.7%
Financing, Rental and Business Activities	18.7%			
Community, Social and Personal Service Activities	22.5%	2.3%	1.6%	2.0%

Source: Bureau of Labor and Employment Statistics

vices. On the other hand, sectors that are most responsive to domestic demand changes influenced by overseas employment are Real Estate and Construction (Raquiza, 2014). Incidentally, the tables above show that incidence of non-regular employment is also notably high in these sectors. Another sector that has been severely affected by globalization despite being outside the coverage of establishment surveys is the Public Sector. These sectors will be explored in brief to illustrate their utilization of flexible employment as an adjustment apparatus.

2.5.1 Public Sector

The administration of Ferdinand Marcos from 1969 to 1986 was a tumultuous period in political and economic terms. The suppression of civil freedoms and social pressures for popular reform through Martial Law in 1972 were met with a government-led development program of the *New Society* aimed at infrastructure and industrial expansion (Villegas, 1988; Bello et al., 2005). Persistent stabilization loans from international financial institutions and the large-scale availability of petro-dollar commercial loans enabled the Philippine government to expand its foreign borrowings, increasing the country's outstanding external debt from USD 2.29 billion in 1970 to 28.186 billion in 1986 (Dohner and Intal, 1989). Using these project and development loans, the government consolidated its economic power via government-owned and controlled corporations (GOCCs), public investment in industries such as energy and mining, and the development of special economic zones in the interest of export orientation.

During this period, employment in the public sector expanded such that it had the highest proportion of wage and salary workers during this period. Tidalgo and Esguerra (1984) note that despite this increase in formal employment within the public sector, these jobs are characterized by high labor turnover, with 45.7% of workers employed in *short-term or provisional contracts*. Since this period, the government itself has benefited from and provided legitimacy to the use of flexible employment arrangements in the civil service. National and local governments have also used these short-term contracts as a source of patronage to secure loyalty from constituencies in need of employment opportunities.

In 1986, the administration of President Aquino decided to honor all debts incurred during the Marcos era, including nonproductive project loans and bailout packages for Marcos' cronies. To service this massive debt burden, the country adopted structural adjustment loans conditioned on decreasing fiscal deficits and established a mechanism for automatic debt appropriations, which endows debt repayments a privileged position in the national budget (Bello et al., 2005). As a result, the public sector was gravely affected by the rapid privatization of state-owned enterprises and public utilities beginning in 1987. These include the country's electricity sector, the publicly owned oil refinery, national banks, and the national air carrier. Prior to privatization, these companies were sites of stable, permanent employment with ample opportunities for economic and skill mobility (Sibal, Amante, and Tolentino, 2008).

In order to adjust to privatization, these enterprises engaged in massive layoffs of some of the most organized sectors of labor as well as the shrinking of public sector employment as a whole. In 1986, budgetary support given to GOCCs amounted to 5.6% of the Gross National Product; in 1990, this declined to only 1.1% of GNP. From 1986 to 1996, 445 of these GOCCs were sold by the government to the private sector (Kuruvilla et al., 2000).

When these large enterprises were privatized, layoffs opened up the opportunity to rehire workers in administrative and operational functions, albeit through third-party agencies and subcontracted firms. Even core functions such as meter-reading and repairs in the national electrical company were increasingly subcontracted. These developments manifested as well in the national airline carrier, which became a site of contention for organized workers in a union dispossessed of their security of tenure (Macaraya, 2006; Sibal, Amante, and Tolentino, 2008; Certeza, 2018).

In the public sector as a whole, Mangaoang (2020) provides evidence that the practice of temporary employment originating from the 1970s remains prevalent in the present through the use by national and local government agencies of Job Orders (JO) [7], Contracts-of-Service (COS), or third-party hiring arrangements. In 2019, the Civil Service Commission reports that

[7] Job Order is defined by the Civil Service Commission as "Lump sum work or services such as janitorial, security, or consultancy where no employer- employee relationship exists between the individual and the government; or piece work or intermittent job of short duration not exceeding six months and pay is on a daily basis."

workers under these arrangements make up 39.3% of the public sector employees, proving that such a practice has developed into a structural norm in the public sector.

2.5.2 Construction

Due to the nature of projects in the construction sector which have a fixed project timeline, the prevalence of *casual and project-based* hiring arrangements is a core feature of the sector, especially in developing countries whose low-skilled labor pools regard construction work as the occupation with least barriers to entry and exit (Wells, 2007).

In light of this, a greater propensity for flexible labor arrangements persisted in the Philippines because of two features embedded in the construction sector.

First, infrastructure construction has always been subjected to the complex interplay of the public and private sectors. During the Marcos era, urban mega-projects were largely initiated by the government and financed by externally-sourced project loans. As these mega-projects served a purpose of legitimizing the dictatorship, short-term contracts in the construction sector became a means of generating jobs amidst high unemployment (Shatkin, 2008). In addition, the timetables followed by some projects are unreasonably tight to anticipate high-profile global public events such as the IMF-World Bank Conference. This mounted intense pressure on temporary workers who were underpaid, overworked, and exposed to occupational hazards. High urban unemployment enabled the continuation of these employment relations despite their precarity (Kelly and Ebrary, 2000).

As privatization overtook government-initiated infrastructure in the country's policy agenda, private-public partnerships increasingly characterized urban mega-projects in the 1990s and 2000s. The government provided subsidies to initiate and maintain these projects, followed by public bidding to private sector contractors based on cost-efficiency. This competition among contractors to lower production costs in order to secure government infrastructure contracts also created a demand for large masses of cheap and flexible labor with little to no opportunities for mobility. Similarly, the shuffling of project bids among different private contractors has led to greater uncertainty in output, discouraging firms from employing long-term regular labor (Shatkin, 2008). Rapid privatization of construction projects has also resulted in high levels of retrenchment as the growth of the sector shrinked from 13.9% in 1989 to merely 4.2% in 1990 (Kelly and Ebrary, 2000).

Second, regardless of the project size, construction in the Philippines has consistently relied on third-party leasing of labor from small single-proprietor firms. Large-scale infrastructure and real estate projects therefore do not rely on a steady pool of labor assembled by a large construction firms, but rather engage in layers of subcontracting with smaller firms. The main function of these subcontracted firms is to provide a supply of temporary workers whose employment contracts are either verbal or nonexistent, and are paid on a daily or weekly basis. Workers employed under these arrangements are not attached to the firms on a long-term basis, but move from one firm to another on entry-level wages despite upskilling (Wells, 2007).

These two factors explain the institutionalization of flexible employment arrangements within the construction sector. Because of the sudden policy shifts in privatization, the government played a central role in forging uncertainty in the market environment to which construction firms needed to adjust. The 1990 PLFS reports that 14.8% of firms in the construction industry had temporary workers that comprised over half of their workforce, which is four times higher than the national average. The same survey shows that firms in construction had the highest tendency to engage in subcontracting, and 63.9% of these subcontracted workers performed core construction jobs (Windell and Standing, 1992) In the late 1990s, Yuson (2001) estimates that 85% of the 1.35 million wage workers in construction are hired on a temporary or project-based contracts. This finding was supported by the BLES Survey on Specific Groups of workers from 1992 to 1997 (SAPRIN, 2004).

2.5.3 Manufacturing

Because of its centrality in the country's decades-long development planning, it is no surprise that the manufacturing sector and its workforce endured tremendous waves of change in the Philippine globalization process. Beginning in the 1960s, the nation was fraught with debates on how to harness the manufacturing sector as a driver of long-term economic development. The Philippines briefly pursued a import substitution strategy from 1950-1967 with limited success, falling short of expectations to develop an industrial base beyond cottage factories. Nonetheless, this industrial strategy resulted in the expansion of manufacturing by an average of 10% annually in the 1950s, and had a gross value added of 12.5% in 1960 (World Bank, 1962). This introduced several shifts in the labor market as it accelerated internal migration to metropolitan areas, expanded the urban working class, and strengthened the demand of organized labor in cities to institutionalize the standard employment relationship (Ofreneo, 1993; Sibal, 2004).

The failure of import substitution to take off provided an opening for the World Bank and the ILO to recommend shifting the direction of manufacturing towards export orientation. A comprehensive report by the ILO and UNDP framed the outward reorientation of the Philippine economy as a strategy to address widespread unemployment (Ranis, 1974). Through conditionalities in structural adjustment loans since 1971, the World Bank promoted export orientation in manufacturing. The Philippine government readily embraced this policy shift and mobilized an assemblage of laws, agencies, and technocrats to pursue a globalization strategy anchored on promoting globally-connected labor-intensive industries (Bello et al., 2005). Jurado (1980, p. 85) argues that grounding export orientation on foreign capital investments "implied a bias towards low wages as a means of reducing labor costs, for inducing the entry of foreign investors, and ensuring the competitive position of Philippine exports in foreign markets."

True enough, Ofreneo (1984) documents the steep decline of real wages during this period as urban real wages in both skilled and unskilled work slumped by an average of 54% from 1970 to 1980. The author argues that there is an untenable contradiction between developing industries using external capital for external markets and the objective of generating quality employment in the long run. First, the sourcing of demand from the global market makes the sector more susceptible to volatilities and crises. Consequently, labor-intensive firms thus prefer greater freedom in adjusting to these changes in demand through a buffer of flexible employees, layoffs, or capital flight.

This contradiction was manifested in the two most important manufacturing subsectors in the globalization period, namely garments from the 1970s to 1990s and electronics from 1980s to the 2000s. From 1975 to 1994, these two subsectors drastically altered the country's export profile and increased shares of employment within manufacturing from 6.4% to 16.3% for garments and 4.2% to 12.2% for electronics (Sibal, Amante, and Tolentino, 2008).

The garments subsector greatly benefited from the Multi-Fiber Agreement (MFA) signed by the Philippines in 1975, which allocated quotas for garments and textile exports to the United States, Europe and Canada for participating countries. In 1997, 77.36% of all garments exports went to these quota countries, signifying the quota dependence of the Philippine garments industry (SAPRIN, 2004; Ofreneo, 2009). Together with the absence of backward linkages, this exposed the garments subsector to greater vulnerability to external market volatility, especially as the Philippines signified its movement away from quotas as it entered the WTO in 1995 (Bello et al., 2005). Flexibility of employment – specifically numerical flexibility through the use of temporary contracts, piece-wise compensation, and subcontracting – is endemic to garments manufacturing in the Philippines.

Although garments manufacturing is largely concentrated within export processing zones, the extent of subcontracting goes beyond the factories that formally employ workers. The first layer of subcontracting occurs between transnational garments firms and domestically-situated factories located in export-processing zones to which the TNCs assign particular stages of production like knitting or embroidery before these intermediate outputs are re-exported again ultimately to TNCs in the Global North. The second layer of subcontracting occurs between these large factories in EPZs to either smaller factories specializing in piece-wise production or to home-workers in a network of domestic outwork. Pineda-Ofreneo (1988) investigated the working conditions of these subcontracted workers and found that wages for the same type of work was diminished the farther a worker is from the core of the subcontracting chain. Furthermore, these subcontracted workers are the most likely to be cut off from the chain of production in case firms need to adjust to downturns in demand. Despite high exposure to overwork and workplace abuses, home-workers and unregistered cottage factories are likewise unprotected and unable to form institutions of collective bargaining (Kuruvilla et al., 2000; Viajar, 2009).

As the overall share of garments in total exports fell from 22% in the early 1990s to merely 8% in 1998, this diminished the extent of subcontracting in the garments industry. However, workers who are formally employed faced increasing threats of shorter contracts and termination of employment (Felipe and Lanzona, 2006; Asuncion, 2013). Indeed, the garments industry recorded the largest share of layoffs and company closures in the wake of the Asian Financial Crisis in 1997 (Kelly and Ebrary, 2000; Sibal, 2004).

By the year 1997, capital-intensive electronics took the lead in generating export earnings for the Philippines, representing 58% of total exports of the country. Semiconductors and other integrated circuitry account for 80% of electronics exports. The share of electronics to total exports rose to nearly 75% in 2003 (McKay, 2004). The industry is dominated by lead TNC firms such as Texas Instruments, Intel, and Hitachi as well as smaller Japanese firms which established their own assembly plants in EPZs. The subsector saw a gradual shift from labor-intensive assembly work in the mid-1980s to increasing capital intensity in the mid-1990s. This means that the electronics industry has become increasingly dependent on a workforce with highly specialized skills and ability to switch between different production tasks (Pineda-Ofreneo, 1985; Sibal, Amante, and Tolentino, 2008). Although a larger proportion of inputs into the electronics subsector are still imported as of 1997, an estimated 40% of raw materials and intermediate inputs were locally sourced (Kuruvilla et al., 2000).

Because of the unique position of the electronics subsector in the Philippine economy, both numerical and functional flexibility were deployed in the restructuring of employment relations within electronics manufacturing firms. During its labor-intensive phase, the electronics subsector was the most likely to employ temporary and casual workers among the manufacturing subsectors at 52.3% as reported by the PLFS, although this has declined to 32.8% by the mid-1990s. Erickson et al. (2003) also note that there exists a dual labor market within electronics firms, such that production processes were given to regular workers while administrative jobs were more likely to be outsourced. As local expertise in electronics manufacturing grew in the 2000s, TNCs became increasingly open to hiring more workers on a contractual basis (Sibal, Amante, and Tolentino, 2008).

In spite of the continued practices of numerical flexibility, the electronics subsector has predominantly utilized functional flexibility in adjusting to changes in market demand and competitive pressures. In reorganizing production, firms depend on statistical process control and just-in-time inventories (Kuruvilla et al., 2000). On the shop floor, workers are expected to adapt to practices of job rotation and multi-skilling. For this purpose, companies invest in training programs for workers who are expected to remain in the same firm for at least three to four years or longer. Because of these additional expectations on skill and output, wages of workers in the electronic subsector are higher than the average in manufacturing (McKay, 2004).

While the primary deployment of functional flexibility proves mutually beneficial to both firms and workers in economic terms, notable aspects in employment relations remain highly despotic. For one, electronics firms in EPZs remain strictly averse to forms of collective bargaining and union formation (Erickson et al., 2003). Another aspect is stringent surveillance inside and outside the factory as the firm's human resources department pay detailed attention to maintaining individualized work relations. Lastly, firms would rather rely on a smaller workforce with high pressures of work performance than hire a larger number of employees. This deliberate effort to keep high tech employment scarce is also a form of control for their existing employees to value the opportunities given to them (McKay, 2004). This may also explain why the proportion of workers in the electronics subsector remains limited despite its contribution to output and productivity improvement.

The electronics subsector is a leading example of the tensions between economic and social upgrading in value chains in the Philippines (Mendoza, 2019). While wages and skills of workers within the subsector may progress upwards, these gains remain exclusive to a small number of workers within the Philippine labor market whose exercise of social rights remain constrained both by their employers and the aforementioned local labor control regimes. Lastly, that the electronics subsector increasingly utilized flexible employment arrangements in the face of growing competition in the 2000s has proven that numerical flexibility is still a significant adjustment apparatus of firms that engage in high-value production.

2.5.4 Real Estate

Finally, real estate deserves special attention in the discussion of labor flexibility amidst globalization because of the sector's complementary role in the expansion and development of all other sectors. Real estate in the Philippines is also uniquely integrated in global circuits of capital and labor. Unlike the public sector and construction which are intimately linked with government institutions or manufacturing which is highly sensitive to foreign investments, the real estate sector until the early 2000s has been fueled by domestic demand.

In a study exploring the investment preferences of the wealthiest business groups in the country, Raquiza (2014) traces a shift from investing heavily in industry in the 1970s to the service sector in the 2000s, particularly in real estate and banking. This shift towards services, which has increasingly occupied the largest proportion of output and employment, is attributed to the emergence of a *consumption-led economy* wherein private household consumption remains high at 57% of GDP despite stagnant real wages across domestic sectors. What sustained the surge in household consumption was the influx of international remittances from overseas Filipino workers (OFWs) (Usui, 2011).

The scale of remittances can be measured by Net Primary Income, which records the net inflows of compensation and property income by Filipino nationals abroad. In 2012, remittance inflows from OFWs amounted to 98% of Net Primary Income (Aldaba, 2014). As Table 2.2 illustrates, Net Primary Income has grown from -0.4% in 1975 to 10.4% of GDP in 2010. This overwhelming share of externally-sourced remittances to output produced in the national economy has boosted the consumption patterns of dependent households which led to the overall expansion of commercial sectors, including retail, financial activities, and real estate. Studies on the consumption patterns of remittance-receiving household revealed that a large portion of expenditures is allocated to the rent and purchase of real property. (Tabuga, 2007; Ang, Sugiyarto, and Jha, 2011). Additionally, remittance-receiving households are consistent in voicing out that the income they receive from abroad is transitory and highly uncertain. This highlights that although remittances have boosted domestic demand, growth in remittance-dependent sectors is still highly contingent on external markets.

Ortega (2016) documents the expansion of real estate in the country's core regions and describes several ways through which the real estate boom in gated communities has resulted in the utilization of local flexible labor. As real estate firms engage in stiff competition to attract remittance-receiving households to purchase real property, services provided by gated communities are kept to a minimum to keep housing costs low. This has led to the reliance of real estate communities on workers hired on project or piece-wise basis, "comprised of handymen, construction workers, gardeners, and security guards to secure and maintain multi-purpose halls, clubhouses, and other facilities [...] These necessary laborers typically live in adjacent slum communities and neighborhoods" (Ortega, 2016, p. 227).

Similarly, the National Capital Region also saw the rapid expansion of high-rise residential condominiums marketed towards remittance-receiving households as well as the globalized constituencies of business districts and the rising tradeable services sector. It appears though that regardless of condominium residents' willingness to pay higher dues, building associations of these condominiums have recently become more accustomed to employing agency-hired workers for maintenance and administrative functions (Maggudayao, 2019). Rather than a concern about higher labor costs, these flexible employment arrangements are used to prevent the formation of unions. Despite the growing insecurity of outsourced workers within these condominiums, real estate developers fully transfer the management of employment relations to homeowners' associations since their objective of maximizing profits is met as soon as the residential units are sold (Shatkin, 2009).

Since demand in real estate remains externally sourced from overseas employment in volatile global markets, these tendencies imply that the utilization of flexible labor is necessary to sustain the demand for real estate and maintain social relations within these real estate dwellings.

The sectors described above share some features in common. First, tremendous transformations have occurred in their production and employment structures in the wake of the country's globalization process. Second, these sectors' sources of demand are highly contingent upon policy shifts and rapid adjustments external to the Philippine political economy. Most importantly, this section demonstrates how flexible labor arrangements are strategically employed as an instrument of acclimation to the instability inherent in sectors exposed to the instability of external market conditions.

Conclusion

Discourses of development in the Philippines since the 1970s have consistently been anchored on global market integration: structural adjustment, foreign investment attraction, and labor export served as pillars of the exportist development mode adopted by the Philippine state. This chapter underscores how labor flexibility scaffolded these foundations of the Philippine political economy on the national, subnational, and sectoral levels. Development policy on the national level opened the country to volatile economic shocks, taking advantage of existing flexible employment practices as a competitive advantage to attract foreign investments. The subnational concentration of employment and investment in three regions led to widespread rural-urban migration and dispossession, regulated by local labor control regimes that promote flexibility through violence, patronage and workers' social networks. Lastly, economic sectors subjected to structural adjustment, integration in value chains, and externally-sourced demand employ numerical and functional flexibility primarily as an adjustment apparatus to changes in demand and technological advances. All in all, the study ties these links together to describe the regulation of labor flexibility in maintaining and reproducing the exportist mode of development in the Philippines.

Chapter 3

Labor Flexibility and Wage Inequality in the Growth Period (2010-2017)

Introduction

As the Philippines integrated its economy into the globalized market via rapid and indiscriminate adoption of market reforms since the 1970s, the country's growth patterns consisted of unstable boom-and-bust cycles with limited prospects for sustained growth. The previous chapter illustrated the processes through which the institutionalization of labor flexibility functioned to maintain and reproduce the Philippines' exportist accumulation regime during the globalization era. Sourcing demand primarily from external sources generated structural vulnerabilities to economic shocks and shifts in the global division of labor. In the absence of a domestically constituted consumer class, this sustained externalization of demand necessitated the maintenance of a tractable supply of short-term and outsourced workers that can easily adjust to frequent demand adjustments on the national, subnational and sectoral levels.

The pattern of sluggish and unstable growth in the Philippines was upended by a period of sustained GDP growth from 2010 to 2017, with annual growth rates averaging at 6.5%. During this period, the World Bank and international credit rating agencies commended the Philippines for maintaining "strong macroeconomic fundamentals" as it registered net surpluses in its current account and fiscal spending (World Economic Forum, 2017). Despite the destabilizing impacts of the 2009 Global Financial Crisis on many of the Philippines' trade partners and investment sources globally, the Philippine economy remained strikingly resilient.

Since the 1970s, neoclassical scholars and policymakers endorsed labor flexibility in the Philippines as a necessary condition for economic growth because of the country's high labor surplus and job-skill mismatches. Encouraged by the IMF, Filipino policymakers have also adopted the narrative that labor flexibility and wage repression were core features of the East Asian NICs' developmental success. However, several studies presented evidence to the contrary: labor standards and wages for workers in East Asian developmental states improved together with output and productivity growth during periods of sustained growth (Fields, 1999; Jomo, 2006).

In contrast, flexible labor arrangements remained a core feature of the labor market as the Philippines achieved sustained economic growth from 2010 to 2017. In fact, labor flexibility took on new forms as existing employment arrangements adapted to circumvent nominal restrictions defined in formal regulatory frameworks. Concurrently, collective bargaining has reached its lowest levels while real wages have stagnated since the early 2000s despite exponential GDP per capita growth. This demonstrates the deepening of social exclusion and inequality in sharp contrast to the agenda of inclusive growth officially endorsed by the Philippine government.

This chapter examines how flexible labor arrangements mediate the relationship between growth and social inclusion. Because labor flexibility was deeply embedded into the Philippines' development model in the past decades, growth in the services sector, particularly in Real Estate, Rental and Business Services, Transport, Storage, and Communications, and Wholesale and Retail Trade, led only to widening wage inequality among workers. The discussion will be structured as follows: first, an overview of the Philippine growth period will be provided, followed by a discussion on key labor reforms that deepened flexibilization during the growth period, and lastly, evidence on the trends of more prevalent labor flexibility and wage inequality within the three growth sectors will be presented.

3.1 Overview of the Philippine Growth Period (2010-2017)

From descriptions such as the "sick man of Asia" (Kind, 2000) and "Asia's development puzzle" (Balisacan and Hill, 2003), economists triumphally proclaimed that the Philippines was "no longer the East Asian exception" (Clarete et al., 2018) as the country rose to be one of the fastest-growing economies in Asia from 2010 to 2017, placing third only to India and China in the region.

While most Asian nations and the rest of the world's economies struggled to recover from the 2009 Global Financial Crisis, the Philippines registered a growth rate of 7.3% in 2010, the highest since the country's post-debt crisis recession in 1984. Although the rate declined in 2011 to 3.86%, this was attributed by economists to the base effect. Doubts on the stability of output growth were put to rest when the economy registered a growth rate of 6.89% in 2012 and maintained this rate on average until 2017.

This growth is also reflected in per capita GDP, which rose from US$ 2,200 in 2010 to US$ 3,042[1] in 2017 at an average growth rate of 4.74%. Debt-to-GDP ratio declined from 71.6% in 2004 to 42.1% in 2017, considered by the IMF as a stellar achievement for a country

[1] Values are in constant 2010 US Dollars (World Bank, 2021).

that underwent several debt rescheduling negotiations since the 1970s (International Monetary Fund, 2020). From a perennially low share of foreign direct investment to GDP at 0.54% in 2010, net inflows of foreign direct investments increased to 3.12% of GDP in 2017.

All these indicators pointed towards sustained and "stable macroeconomic fundamentals," a claim often made by the Philippine government and multilateral development banks celebrating this unprecedented growth period (Asian Development Bank, 2017; World Bank, 2018a). International credit rating agencies likewise affirmed the country's economic stability by granting four credit rating upgrades up to BBB from 2010 to 2017, the importance of which to the Philippine government was underscored by the nation's President in 2014:

> "For the first time in history, the Philippines was upgraded to investment grade status by Moody's, Fitch, and Standard and Poor's—the three major credit ratings agencies in the world. Through their study of our macroeconomic fundamentals and governance, they determined that there was less risk, which led to a vast increase in confidence on the part of investors. Just this May, they upgraded the Philippines yet again. What this means: Because the Philippines is now investment grade, government will be able to borrow funds for programs and projects at lower interest rates, more businesses will be attracted to invest in our country, and Filipinos will be able to feel the benefits of our economic resurgence more quickly."
>
> (Aquino, 2014)

Behind this project of economic resurgence was the promise of *inclusive growth*[2] Keeping up with the Augmented Washington Consensus (Rodrik, 2006), the Philippine government deployed discourses of anti-corruption, good governance, and public-private partnerships as government's primary role in promoting economic growth.

However, social indicators signaled that these growth figures did not permeate the living conditions of majority of the country's population. In 2015, 22 million Filipinos or 23.3% of the population lived below the national poverty rate (World Bank, 2021). A study by Parel (2014) provides evidence for the uneven gains from economic growth: national GDP per capita growth only translates to household income growth for the subset of the population that is already above the poverty line prior to growth. In terms of job generation, unemployment also declined by a dismal amount from 8.0% in 2006 to 6.9.% in 2015, while the labor force participation rate receded from 64.72% in 2011 to 61.87% in 2017, remarkably the lowest level since 1990 (World Bank, 2021).

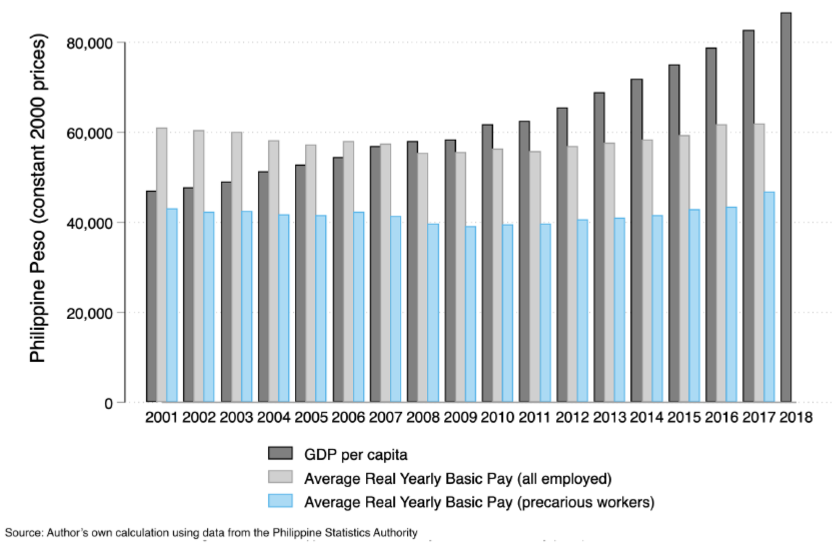
This stood in contrast with the experience of East and Southeast Asian economies wherein periods of economic expansion was complemented by a significant reduction in poverty incidence and widespread incorporation of rural workers into the formal labor force (Fields, 1999; Warr, 2000). One possible explanation for this divergence is that Philippine development policy during its growth period circumvented labor incomes, heavily focusing instead on promoting

[2] The Philippine Development Plan of NEDA (2011) defines *inclusive growth* as "sustained growth that creates jobs, draws the majority into the economic and social mainstream, and continuously reduces mass poverty" (p. 18).

means-tested conditional cash transfer (CCT) programs as embodied in the flagship *Pantawid Pamilyang Pilipino Program*. While patterned after CCT programs in Brazil and Argentina, the Philippines' localized CCT disregarded the complementarity of cash transfers to poor households and progressive incomes policies for workers (Raquiza, 2018; Dadap-Cantal, Fischer, and Ramos, 2021).

In fact, conditions of in-work poverty and wage stagnation coexisted with higher per capita income growth from 2010 to 2017. In *Making Growth Work for the Poor: A Poverty Assessment for the Philippines* the World Bank (2018b) explains that majority of Filipinos falling below the national poverty line are employed: 85% of the poor in 2015 are employed, 44.8% of whom are employed in the formal sector. As De Dios and Dinglasan (2015) likewise illustrate, poverty is more prevalent among the employed than the unemployed on average. As Figure 3.1 demonstrates, GDP per capita nearly doubled in value while average annual real wages of all employed workers hovered at 60,000 Philippine pesos before, during and after the growth period[3] Among these workers, workers under short-term contracts or changing employers are recorded to have even lower, albeit similarly stagnating real wages.

Fig. 3.1: GDP per capita vs. Annual Real Basic Pay in Philippine pesos (2001-2018)



Source: Author's own calculation using data from the Philippine Statistical Authority

Aside from inclusivity, another question raised by some scholars on the Philippine growth period concerns its sustainability based on an assessment of the drivers of economic growth with particular attention to the services sector during this period. Usui (2011) and Ofreneo (2015) point out that the tremendous share of the services sector in the economy stems from *premature deindustrialization* or the absorption of employment and output decline in the agricultural sector

[3]This is equivalent to approximately US$ 1,258.81 in constant 2000 US Dollars.

by the services sector, all while manufacturing employment and output dwindled even before being established as the primary driver of the economy (Rodrik, 2016).

As Table 3.1 illustrates, the share of services in total output was already large in 2000 at 51.58% and it grew even more to 57.76% in 2018 as the agriculture sector declined to below 10% of gross-value added. Raquiza (2017) points out that this recent growth period is the first instance where the large gross-value added of services is accompanied by sustained growth in the sector. The Philippine services sector is highly heterogeneous, composed of both low and high-value adding activities, as well as a mix of demand and investment sources Tuaño and Cruz (2019). Amidst this heterogeneity, Table 3.2 shows that all the subsectors categorized under services grew at an average annual rate above 5%, a trend that is not present in all subsectors of agriculture and industry which demonstrates a greater disparity among the growth rates of subsectors.

This led scholars and policymakers to classify the Philippines' growth from 2010-2017 as a period of *services-driven growth* (Mitra, 2013; Raquiza, 2017). Among the subsectors of services, the three subsectors that generated the fastest growth during this period as illustrated in Table 3.2 are (1) Financial Intermediation, which include banking and insurance services; (2) Real Estate, Renting, and Business Services under which both low and high-rise housing, business-oriented real estate, and the business processing outsourcing (BPO) industries are located; and (3) Wholesale and Retail Trade, which covers the assemblage of small and mega-retail corporations. In a study by Raquiza (2014), she presents evidence that the country's capitalist class has largely transformed the composition of their investment portfolio and chief sources of profits. In the 1960s to the 1990s, the highest-earning elite families had a combination of holdings in agriculture through land ownership, manufacturing factories, and commercial trade for export. In the 2000s and especially during the growth period, domestic investments of these same families were largely composed of services: a mix of real estate, both residential and business, as well as financial intermediation and retail trade. The study attributes this boom to two factors. As Chapter 2 has shown, retail and real estate sourced their demand from remittance inflows of overseas workers to their families, boosting domestic consumption of a new middle class despite the stagnation of incomes.

A key feature of the growth period is the tremendous expansion of the Information Technology and Business Outsourcing Processing (IT-BPO) industry from foreign investment inflows, boosting the country's export profile in services. The Philippine government has strongly supported this movement towards making the services sector the base of economic growth, as reflected in the 2011 Plan entitled *Smart Philippines* by the National Economic and Development Authority (Mitra, 2013). This development plan outlines the promotion of human capital improvements for services exports, the shift of Export Processing Zones rooted in industry towards Special Economic Zones

Table 3.1: Gross Value Added by Sector (2000-2018)

	2000	2003	2006	2009	2012	2015	2018
AGRICULTURE	**13.97%**	**13.96%**	**13.11%**	**12.53%**	**11.09%**	**9.47%**	**8.10%**
INDUSTRY	**34.46%**	**33.34%**	**32.50%**	**31.46%**	**32.22%**	**33.49%**	**34.14%**
Mining and Quarrying	0.63%	0.99%	0.92%	1.12%	1.14%	1.06%	0.93%
Manufacturing	24.47%	26.85%	23.98%	21.47%	26.35%	22.14%	23.30%
Construction	5.70%	4.67%	4.61%	5.38%	5.52%	6.01%	6.72%
Electricity, Gas, and Water Supply	3.66%	3.70%	3.51%	3.49%	3.42%	3.25%	3.19%
SERVICES	**51.58%**	**52.70%**	**54.39%**	**56.01%**	**56.70%**	**57.04%**	**57.76%**
Transport, Storage, and Communications	6.12%	7.50%	7.98%	7.99%	7.56%	7.65%	7.29%
Wholesale and Retail Trade	15.79%	16.23%	16.63%	16.53%	16.74%	16.72%	16.89%
Financial Intermediation	5.23%	5.43%	6.10%	6.42%	6.77%	7.19%	7.40%
Real Estate, Renting, and Business Services	9.32%	8.95%	9.48%	10.34%	10.77%	11.25%	11.37%
Public Administration and Defense	5.15%	4.89%	4.66%	4.55%	4.36%	3.91%	4.33%
Other Services	9.96%	9.71%	9.54%	10.17%	10.49%	10.32%	10.49%

Source: National Statistical Coordination Board

Table 3.2: Growth Rates of Economic Sectors and Subsectors (2000-2018)

	2003	2006	2009	2012	2015	2018	2000-2009	2010-2018
AGRICULTURE	**-7.15%**	**19.15%**	**2.44%**	**1.77%**	**0.99%**	**1.21%**	**4.81%**	**1.32%**
INDUSTRY	**2.77%**	**4.90%**	**2.91%**	**7.30%**	**8.43%**	**7.82%**	**3.53%**	**7.85%**
Mining and Quarrying	25.21%	3.36%	11.94%	7.28%	3.91%	2.22%	13.50%	4.47%
Manufacturing	3.24%	5.02%	0.95%	7.57%	8.72%	7.27%	3.07%	7.85%
Construction	-2.72%	5.40%	10.32%	7.40%	10.40%	11.77%	4.33%	9.86%
Electricity, Gas, and Water Supply	4.34%	3.88%	3.90%	5.49%	4.88%	6.30%	4.04%	5.56%
SERVICES	**4.80%**	**7.14%**	**5.22%**	**6.83%**	**7.09%**	**7.56%**	**5.72%**	**7.16%**
Transport, Storage, and Communications	12.38%	8.39%	4.16%	4.21%	7.30%	5.13%	8.31%	5.55%
Wholesale and Retail Trade	5.01%	6.86%	3.87%	6.85%	6.78%	7.46%	5.25%	7.03%
Financial Intermediation	5.41%	10.77%	6.08%	8.47%	9.37%	8.19%	7.42%	8.67%
Real Estate, Renting and Business Services	2.49%	8.21%	7.52%	7.97%	8.63%	7.49%	6.07%	8.03%
Public Administration and Defense	2.08%	4.00%	3.26%	4.68%	2.74%	11.36%	3.11%	6.26%
Other Services	3.04%	5.19%	6.59%	7.61%	6.17%	7.72%	4.94%	7.17%
GDP GROWTH RATE	**2.43%**	**7.59%**	**4.11%**	**6.34%**	**6.85%**	**7.05%**	**4.71%**	**6.75%**

Source: National Statistical Coordination Board

Likewise, Table 3.3 demonstrates that employment in the services sector mirrors the lion's share of the sector's gross-value added, with 57.5% of Filipino workers employed in the services sector at the end of the growth period in 2018. As a whole, the employment share of the services sector grew by 9.2% as it appears to have absorbed a bulk of the decline in agricultural employment. Like the sectors themselves, employment within services is unevenly distributed, with the highest number of workers in 2018 in the Wholesale and Retail Trade subsector at 19.2%, Transport, Storage and Communications at 8.4%, and the Real Estate, Renting, and Business Services at 5.10%.

However, one downside identified by scholars to employment's mirroring of gross-value added is the lower productivity of the services sector compared to the Manufacturing subsector within Industry, which only employed 8.95% of all workers in 2018 but contributed 23.3% in gross-value added. Felipe and Estrada (2018) in fact challenge claims on the period's service-driven character, as their study provides evidence that manufacturing productivity accounted for

Table 3.3: Percent Share of Employment by Sector (2009-2018)

	2009	2012	2015	2018	% Change (2010-2018)
AGRICULTURE	**34.73%**	**31.00%**	**24.70%**	**23.10%**	**-11.63%**
INDUSTRY	**14.31%**	**15.70%**	**16.50%**	**19.41%**	**5.10%**
Mining and Quarrying	0.50%	0.70%	0.60%	0.51%	0.01%
Manufacturing	8.17%	8.40%	8.30%	8.95%	0.79%
Electricity, Gas, and Water Supply	0.35%	0.40%	2.00%	0.40%	0.05%
Construction	5.30%	6.20%	7.30%	9.60%	4.30%
SERVICES	**48.30%**	**53.30%**	**55.00%**	**57.50%**	**9.20%**
Wholesale and Retail Trade	18.40%	17.80%	18.50%	19.20%	0.80%
Transport, Storage, and Communications	7.29%	7.90%	8.40%	7.90%	0.61%
Financial Intermediation	1.05%	1.10%	1.20%	1.40%	0.35%
Real Estate, Renting and Business Services	2.78%	5.00%	5.00%	5.10%	2.32%
Public Administration and Defense	4.76%	5.20%	5.70%	6.50%	1.74%
Other Services	14.01%	16.30%	16.20%	17.40%	3.39%

Source: Bureau of Labor and Employment Statistics

the speed at which the economy was able to grow from 2010-2017. In agreement with concerns raised by Usui (2011) and Tuaño and Cruz (2019), the authors caution that pouring domestic and foreign investments primarily on the low-productivity services sector is likely to dampen the Philippines' long-run growth prospects.

3.2 Labor Reforms and Institutionalized Outsourcing

In the institutionalization of labor flexibility in the Philippines, the growth period also represents a crucial turning point in the main policy platform where flexible labor arrangements is highly contested. In 2011 and 2017, several reforms were introduced by the Department of Labor and Employment (DOLE) to the Department Orders (D.O.) which as Chapter 2 illustrates, is the primary regulatory instrument of flexible employment, particularly in the discussion of outsourcing and trilateral employment. Prior to discussing the reforms initiated during the growth period, this section will also outline the historical and political background of the contestation on the Department Order.

Table 3.4 summarizes the key elements pertinent to labor-only contracting, subcontracting, and rights and entitlements of contractual workers under the Department Orders released from 1997 to 2017.

These Department Orders constitute the most concrete reforms in the formal institutional regulation of labor flexibility in the Philippines. As can be seen on the table, there are several interrelated issues that are the subject of political and economic debate. First, there has been a marked evolution in the question of properly distinguishing between categories of labor-only contracting and subcontracting. Prior to the issuance of D.O. No. 10 in 1997, employers' associations such as ECOP instrumentalized the observed trilateral system of temporary employment in Japan and increasingly in South Korea to argue for the economic viability of *permissible contracting* while keeping the restrictions on labor-only contracting purposefully vague (ILS, 1997). As the Asian Financial Crisis led to significant outflows of foreign capital, the Philippine government through the DOLE was quick to make concessions in implementing *permissible contracting*, effectively cementing the legal basis for outsourcing or trilateral employment.

A political crisis led to the second People Power Revolution and the ouster of the sitting President in 2001, carving a space for labor movements to contest what they perceive as a superficial legal distinction designed to disguise employment relations between the principal employer and the subcontracted workers. As a result, D.O. 18-02 repealed the provision on *permissible contracting* and replaced it with *legitimate contracting* with an emphasis on the separation of economic activities between the labor subcontractor and the principal employer. Legitimate contracting served as the foundation for setting standards to prohibit labor-only contracting in later Department Orders via a minimum capital requirement and the restriction that subcontracted labor "must not be directly related to the main business operation of the employer" (Cristobal and Resurreccion, 2014).

In 2011 and 2017, this minimum capital requirement became quantified by the Department Orders to provide a semblance of stricter regulation in response to continuing demands for the prohibition of legitimate contracting. Far from restricting the practice of trilateral employment and outsourcing, these additional requirements including official registration of labor subcontractors with the DOLE functioned as an instrument for legitimating *de facto* labor-only contractors if they can fulfill the cursory requirements set by the Department. Proposed reforms in legislative bodies aim to amend the Labor Code itself, yet still fall into the trap of conflating more stringent employment protection regulation with additional requirements for subcontractors to "prove" their economic separation via from the principal employer. An alternative proposal by labor movements to sharply distinguish between subcontracting and trilateral employment is a substantive inquiry on whether the value of the employee's labor is accrued by the subcontractor or the principal employer, but this remains to be a subject of debate (Espiritu, 2018).

Lastly, the institutionalization of trilateral employment places a key challenge to the approximation of labor flexibility as Department Orders 18-A and 174 effectively considers workers under legitimate contracting as *regular workers* statistically in the Labor Force Survey despite being under trilateral or disguised employment arrangements. Hence, scholars point out that statistical records of the extent and depth of labor flexibility from 2011 to 2017 may be significantly underestimated (Ofreneo, 2013; Serrano, Marasigan, and Pupos, 2014). This provides a point of information for the next section, for which these statistical challenges may already be present.

Table 3.4: Summary of DOLE Department Orders on Labor Contracting (1997-2017)

Department Order/Provision	**D.O. 10 (1997)**	**D.O. 18-02 (2002)**	**D.O. 18-A (2011)**	**D.O. 174 (2017)**
Labor-only contracting	Prohibited; subject to the investigation and declaration of competent authority if subcontracting arrangements fall under labor-only contracting	Prohibited; instituted additional standards for classification of labor-only contracting: (1) inadequacy of substantial capital or investment directly related to the the work or service performed; or (2) exercise by contractor of the "right to control" over the work of the contractual employee	Prohibited; retained standards in D.O. 18, defined substantial capital as amounting to 3,000,000 Philippine Pesos (equivalent to US$ 69,300 using the exchange rate in 2011)	Absolutely prohibited; increased the value of substantial capital as amounting to PhP 5,000,000 Philippine Pesos (equivalent to US$ 99,240 using the exchange rate in 2017) and added the provision that contracted-out work or service must not be directly related to the main business operation of the principal employer
Subcontracting	Established *permissible contracting* or subcontracting on the basis of: (a) works or services temporarily or occasionally needed to meet additional demand or highly technical personnel; (b) works or services not directly related to the main business or operation of the principal; (c) substitute services for regular employees	Replaced permissible contracting with *legitimate contracting* under a trilateral relationship: a three-way contract between the principal employer, subcontractor, and the employee; functions are under the principal employer's discretion	Retained legitimate contracting under a trilateral relationship; established that relationship between contractor and employee is subject to the Labor Code and a written Employment Contract while the relationship between the principal employer and the contractor is subject to the Civil Code and a written Service Agreement	Retained trilateral relationship and required contracts (i.e. Service Agreement and Employment Contract); added the requirement that the administrative fee paid to contractors by principal employers must be at least 10% of the total contract cost of the Service Agreement
Rights and privileges	Contractual employees are entitled to all the rights and privileges of regular employees (including social and welfare benefits); contractual employees are also entitled to be retained in the manpower pool of the contractor for a six-month period; established a registry of contractors or subcontractors	Contractual employees are entitled to all the rights and privileges of regular employees (including social and welfare benefits); abolished the manpower pool; maintained the registry of contractors or subcontractors	Contractual employees are entitled to all the rights and privileges of regular employees (including social and welfare benefits) and an added entitlement to security of tenure, which was left undefined	Contractual employees are entitled to all the rights and privileges of regular employees (including social and welfare benefits), removed the entitlement on security of tenure

Source: Author's own compilation using data on the DOLE website

3.3 Labor Flexibility within Growth Sectors (2010-2017)

As growth paved the way for greater employment opportunities, it has also created conditions for the reproduction of existing inequalities within the labor market especially since formal institutions were refined in favor of further flexibilization. Since the Philippine government continued to prioritize the reduction of unemployment rather than correcting existing inequalities and forwarding employment protection, the growth period has contributed to maintaining the institutionalization of labor flexibility that formed a pillar of the Philippine economy earlier on during its globalization period.

Fig. 3.2: Number of Non-Regular Workers in Sectors (2000-2015)

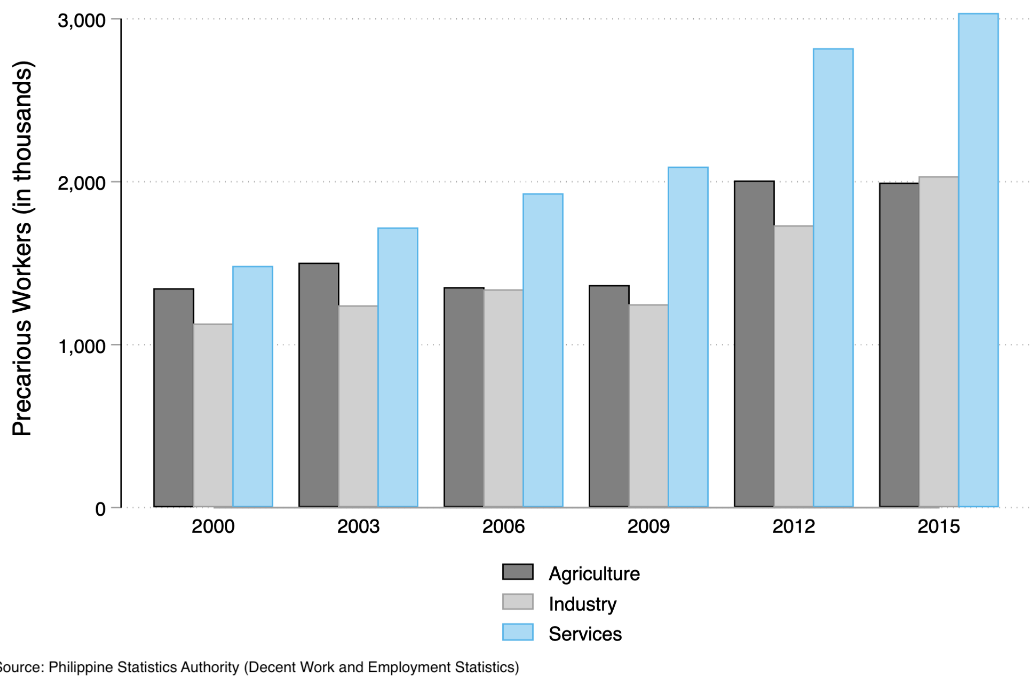


Figure 3.2 illustrates the rise in numbers of non-regular workers during the growth period in all of the macro-sectors, but most especially in the services sector. When disaggregated into subsectors as Table 3.5 illustrates, 6 million more workers became employed in flexible employment arrangements from 2010 to 2017. As agricultural employment declined in general, non-regular workers in flexible employment also showed the slowest rate of growth. However, the same cannot be said for Industry and Services, both of which registered growth rates higher than 6% from 2010 to 2017. Non-regular workers in Manufacturing and Construction had notably grown by 7.10% and 7.43% respectively. Within the services sector, subsectors of note are Wholesale and Retail Trade (6.42%), Financial Intermediation (7.83%) and Real Estate,

Table 3.5: Number and Growth Rate of Non-Regular Workers Per Sector (2010-2017)

	2010	2017	% Growth
AGRICULTURE	**662,665**	**739,195**	**1.57%**
INDUSTRY	1,859,515	2,945,538	6.79%
Mining and Quarrying	65,898	84,795	3.67%
Manufacturing	1,264,523	2,044,189	7.10%
Construction	325,820	538,107	7.43%
Electricity, Gas, and Water Supply	203,274	278,447	4.60%
SERVICES	**3,179,359**	**4,981,084**	**6.62%**
Transport, Storage and Communications	427,766	636,612	5.84%
Wholesale and Retail Trade	948,743	1,467,006	6.42%
Financial Intermediation	374,716	635,139	7.83%
Real Estate, Renting and Business Activities	588,947	999,420	7.85%
Public Administration	255,087	346,234	4.46%
Other Services	584,100	896,674	6.31%
TOTAL NON-REGULAR	**10,740,413**	**16,592,441**	**6.41%**

Source: Bureau of Labor and Employment Statistics

Renting and Business Activities (7.85%), clearly indicating that increased employment within the services sector also led to hiring more workers under flexible employment arrangements.

Table 3.6: Share of Non-Regular Workers in Total Employment Per Sector (2010-2017)

	2010	2017	% Change
Agriculture, Forestry, and Fishing	37.08%	28.42%	-8.66%
Mining and Quarrying	0.68%	0.63%	-0.06%
Manufacturing	7.54%	7.49%	-0.06%
Electricity, Gas, and Water Supply	0.39%	0.34%	-0.05%
Construction	5.26%	8.39%	3.13%
Wholesale and Retail Trade	18.69%	18.88%	0.20%
Transport, Storage and Communications	6.51%	8.27%	1.75%
Hotels and Restaurants	2.66%	3.96%	1.30%
Financial Intermediation	1.48%	1.17%	-0.32%
Real Estate, Renting and Business Activities	2.75%	4.25%	1.50%
Private Educational Services	0.90%	0.66%	-0.24%
Private Health and Social Work	1.16%	0.89%	-0.28%
Public Administration	5.30%	9.60%	4.29%
Community, Social and Personal Service Activities	9.58%	7.06%	-2.52%

Source: Bureau of Labor and Employment Statistics

This trend of increased non-regular employment is also seen in Table 3.6, which suggests that non-regular workers comprise a higher proportion of total employment in the growth sectors in 2017 compared to 2010. This pattern of greater shares of non-regular employment is most consistently observed in Wholesale and Retail Trade (0.20%) Transport, Storage and Communications (1.75%), Hotels and Restaurants (1.30%), and in Real Estate, Renting and Business Services (1.50%) .

3.4 Labor Flexibility and Wage Inequality in Growth Sectors

This section seeks to substantiate on whether the greater share of flexible employment within growth sectors contributed to a significant gap in incomes, measured by the average daily wage. Data from this section is taken from the *Labor Force Survey* (LFS), a nationwide quarterly survey of households conducted by the Philippine Statistics Authority (PSA) to gather data on the demographic and socio-economic characteristics of the population. The survey is conducted in January, April, July, and October to capture changes in employment statistics brought about by seasonal factors. The questionnaire of the LFS, first utilized in 1987, makes use of past-week reference periods and since 2001, has included data on salaries and wages, new entrants, and other occupations, among others. The 2010 Census of Population and Housing (CPH) is currently in use to generate the labor force statistics based on a sample size of approximately 44,000 households per quarter. Geographically, these statistics can be further disaggregated into provinces, highly urbanized cities (HUCs), and other urban areas (Philippine Statistical Authority, 2012).

The findings here focus on the growth subsectors, namely (1) Wholesale and Retail Trade, (2) Transport, Storage and Communications, and (3) Real Estate, Rental, and Business Services. After grouping the subsectors together and determining the total number of workers within each subsector, average wages in each category of *Permanent* and *Non-Regular* workers were computed in years 2010 and 2017, leading to the findings in Tables 3.7 and 3.8. Lastly, the change in the wage gap from 2010 to 2017 was computed, alongside the percentage increase of non-regular workers within the subsector, illustrated in Table 3.9.

Findings from descriptive statistics reveal a general trend of a wider wage gap in 2017 compared to the beginning of the growth period in 2010. As the number and share of non-regular employees rose within the growth subsectors, so did the wage gap between Permanent and Non-Regular Workers. Within the specific sectors, the only exception to the trend is the Transport, Storage and Communications Sector, in which the gap appeared to decrease. Meanwhile, the gap in the Wholesale and Retail Trade sector increased moderately, while the largest increase in the average wage gap is observed in the Real Estate, Rental, and Business Services - incidentally th?e subsector with the fastest rate of growth with the influx of Business Process Outsourcing (BPO) as a major contributor to trade in services.

Table 3.7: Number of Employees and Wage Gap Between Permanent and Non-Regular Workers (2010)

	Permanent	**Ave. Wage**	**Non-Regular**	**Ave. Wage**	**Gap**
Wholesale and Retail Trade	4036	264.6779	1009	225.7393	-38.9386
Transport, Storage and Communications	1233	386.8321	261	272.2261	-114.606
Real Estate, Rental, and Business Services	1361	458.5628	244	377.7418	-80.821

Source: Author's own computation using data from the Philippine Statistics Authority
Note: Wages in Philippine peso (2017)

Table 3.8: Number of Employees and Wage Gap Between Permanent and Non-Regular Workers (2017)

	Permanent	**Ave. Wage**	**Non-Regular**	**Ave. Wage**	**Gap**
Wholesale and Retail Trade	7064	430.3691	1576	364.8921	-65.477
Transport, Storage and Communications	2373	544.5263	403	442.8511	-101.675
Real Estate, Rental, and Business Services	3096	794.6793	359	517.6184	-277.061

Source: Author's own computation using data from the Philippine Statistics Authority
Note: Wages in Philippine peso (2017)

Table 3.9: Change in Wage Gap and % of Non-Regular Employees Per Sector (2010-2017)

	Change in Wage Gap	**Change in % Non-Regular**
	2010-2017	2010-2017
Wholesale and Retail Trade	26.5384	0.20%
Transport, Storage and Communications	-12.9308	1.75%
Real Estate, Rental, and Business Services	196.2399	1.50%

Source: Author's own computation using data from the Philippine Statistics Authority

First, Wholesale and Retail Trade is the subsector that employs almost a fifth of the Philippine working class and has expanded through retail shopping mall chains and private businesses. From Table 3.10, we see that the wage gap has increased by an average of 9.74% annually, and that in 2017, the average non-regular worker earned 15,715 (approximately 325 USD dollars) less than their permanent counterparts.

Second, transport, storage and communications was boosted by a growth in the IT-BPO sector because of additional demand for internet connectivity and logistic services. Interestingly, the wage gap has narrowed in this subsector by at least 1.61% annually as seen in Table 3.11, but the magnitude of the gap in Philippine pesos is much larger that in Wholesale and Retail Trade.

Lastly, as seen in Table 3.12, the gross-value added of the Real Estate and Business Services grew by an average of 8% from 2010-2017 due to the boom in the business processing outsourcing industry of call centers, non-voice services that cater to companies in the US and Europe. Despite this growth in output and employment, the subsector also registered the highest growth in the wage gap between permanent and non-regular workers at an average of 34.69% annually. In 2017, this is equivalent to an average non-regular worker earning 66,000 pesos (or 1350 US dollars) less than the average permanent worker in this subsector.

Table 3.10: Wholesale and Retail Trade: Wage Gap Between Permanent and Non-Regular Workers (2010-2017)

Indicator	**2010 (PhP)**	**2017 (PhP)**	**Annual Change (%)**
Permanent (average wage)	264.68	430.37	8.94%
Non-regular (average wage)	225.74	364.90	8.81%
Daily wage gap (Philippine peso)	-38.94	-65.48	
Annual wage gap (Philippine peso)	-9,345	-15,715	
Wage gap (%)	**-14.71%**	**-15.21%**	**9.74%**

Source: Author's own computation using data from the Philippine Statistics Authority
Note: Wages in Philippine peso (2017)

Table 3.11: Transport, Storage and Communications: Wage Gap Between Permanent and Non-Regular Workers (2010-2017)

Indicator	**2010 (PhP)**	**2017 (PhP)**	**Annual Change (%)**
Permanent (average wage)	386.83	544.53	5.82%
Non-regular (average wage)	272.23	442.85	8.95%
Daily wage gap (Philippine peso)	-116.61	-101.68	
Annual wage gap (Philippine peso)	-27,504	-24,403	
Wage gap (%)	**-29.63%**	**-18.67%**	**-1.61%**

Source: Author's own computation using data from the Philippine Statistics Authority
Note: Wages in Philippine peso (2017)

Table 3.12: Real Estate and Business Services: Wage Gap Between Permanent and Non-Regular Workers (2010-2017)

Indicator	**2010 (PhP)**	**2017 (PhP)**	**Annual Change (%)**
Permanent (average wage)	458.56	794.68	10.47%
Non-regular (average wage)	377.74	517.62	5.29%
Daily wage gap (Philippine peso)	-80.83	-277.06	
Annual wage gap (Philippine peso)	-19,369	-66,494	
Wage gap (%)	**-17.62%**	**-34.86%**	**34.69%**

Source: Author's own computation using data from the Philippine Statistics Authority
Note: Wages in Philippine peso (2017)

Conclusion

By tracing the unprecedented period of growth and structural change in the Philippines from 2010 to 2017, the chapter investigated how economic growth and deeper global market integration produced a situation of uneven and unequal development. Not only did the Philippines falter in terms of poverty and unemployment reduction, the government also actively restructured the labor market in favor of institutionalizing labor outsourcing. As employment statistics indicate, non-regular employment increased in the entire labor market. Within the services sector, substantial growth in the Wholesale and Retail Trade, Transport, Storage and Communications as well as Real Estate, Rental, and Business Services was reached with higher incidence of flexible employment. Wage trends from descriptive statistics also point to a widening income inequality especially in the subsectors of Wholesale and Retail Trade as well as in Real Estate and Business Services. While wage inequality did not widen in Transport, Storage and Communications, the scale of the wage gap as well as the slower rate of wage growth for temporary workers relative to that of permanent workers still merit grave concern.

The chapter thus answers the research question: *What effects does this institutionalized flexibility exert on workers' wages from 2010 to 2017?* The chapter argues that institutionalized labor flexibility worsened average wage inequality in the three growth subsectors. To provide a more systematic explanation on the interaction between labor flexibility and wage inequality, further research will need to be done to complement the evidence presented in the study.

Concluding Remarks

The study adopted these research questions: *What explains the institutionalization of labor flexibility in the Philippines' globalization process from 1970 to 2010? What effects does this institutionalized flexibility exert on workers' wages from 2010 to 2017?* Through its three chapters, the dissertation demonstrates the impact of institutionalized flexibility on wage levels of workers in services during the country's globalization era.

By providing an overview of the debates in three paradigms in political economy, namely the (1) Neoclassical Paradigm, the (2) New Institutionalist Economics, and (3) Institutionalist Political Economy, Chapter 1 provides a theoretical foundation for the dissertation as it seeks to explain the profound transformation of labor markets towards flexibility. Since the study focuses on a specific period, i.e. globalization since the 1970s, the discussion centered on theoretical contributions made during this period. After an assessment of the three paradigms, their limitations, and how they apply to the Philippines, the study then adopts Institutionalist Political Economy as its paradigm.

Through a critical reappraisal of Philippine political economy, Chapter 2 traces the development of labor flexibility in the Philippines by examining the construction of the Philippine exportist mode of development and contingent shifts in the labor market. In the globalization period from 1970 to 2010, labor flexibility served three functions: (1) a source of competitive advantage in the quest for foreign capital investments on the national level, (2) a local labor control regime for key developing regions on the subnational level, and (3) an adjustment apparatus for economic sectors deeply entrenched in volatile global markets. This provides an alternative explanation to the durability of labor flexibility despite clamor by social movements for reform. Not only does the perpetuation of labor flexibility complement the profit accumulation of domestic elites, flexibility also fittingly undergirds the entrenched fragility of the economy due to haphazard global market integration.

Lastly, Chapter 3 traces the growth period from 2010 to 2017 to illustrate the structural transformation of the Philippine economy from an Asian exception to one of the fastest-growing economies in the region. However, as studies demonstrate, this growth period led to the further flexibilization of the Philippine labor market through key labor reforms. Furthermore, flexible employment increased within the growth sectors, accompanied by a wider wage gap in Real

Estate, Rental, and Business Services as well as Wholesale and Retail Trade. This points to the continued maintenance of labor flexibility as a foundation of the Philippine development model, making growth gravely unsustainable and inequitable. As output and employment in the Philippine services sector expanded, flexible labor arrangements increased in magnitude and diversity of forms. Demonstrated by descriptive statistics, this also led to wage growing slower than GDP per capita for both permanent and temporary workers.

Since wage-setting is inherently a political process, the study also provides insight for the declining bargaining power of workers in the Philippines. As a greater proportion of workers are hired under short-term or triangular employment arrangements, the formation of unions and collective bargaining units has been mired with compounding difficulties from the absence of security of tenure. As the second chapter explained, flexibility has functioned as a disincentive to unionization since the precarity embedded in short-term contracts has been used as a disciplinary instrument of employers to arrest the strengthening of workers' voice. The study thus encourages further inquiry into the relationship between labor flexibility in the Philippines and declining union density since the 1990s.

The study provides empirical support to claims of precarity experienced by workers under flexible employment arrangements and opens opportunities for further research in the political economy of flexibility in the Philippines and other developing countries. Future studies can look deeper into the structure of wage inequality using more complex decomposition techniques, other sectors of the Philippine economy, or how widespread external shocks such as the COVID-19 pandemic affected the dynamics examined in the study.

Discourses of development in the Philippines since the 1970s have consistently been anchored on global market integration: structural adjustment, foreign investment attraction, and labor export served as pillars of the exportist development mode adopted by the Philippine state. By way of a contribution to ongoing debates within the Philippine labor movement on strategically advancing decent work, this study urges a rethinking of proposed reforms by grounding analysis of labor flexibility on political economy instead of a narrow focus on legalistic reform. As long as the labor market remains tethered to the global market via fragile threads of exportism without a stable base of wage-led domestic demand, labor flexibility retains its fundamental role in reproducing the exclusive, precarious, and uneven development characteristic of Philippine political economy. Finally, the study also presents a challenge to neoclassical and new institutionalist paradigms that continue to promote labor flexibility for greater market inclusion of low-skill workers as well as an employment-generating policy in the context of global value chain integration the Global South. Wage inequality during the growth period in the Philippines suggests that institutionalized labor flexibility dampens the potential gains that workers can accrue from economic growth.

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