

# POLICY BRIEF

GLOBALIZATION, ADJUSTMENT AND THE CHALLENGE OF INCLUSIVE GROWTH

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## INDUSTRY CHURNING, THE LABOR MARKET AND WORKERS' WELFARE

### INTRODUCTION

**This case study of displaced workers shows that job loss results in significant economic losses and drastic deterioration in workers' welfare, and that these adverse outcomes can persist over the medium to long term. Low re-employment rate, a drop in the quality of employment and earnings for those who find work again, heightened economic insecurity, and drastic decline in workers health status are among the most dramatic consequences of job loss.**

The findings are in line with the growing literature in developed and, especially, in developing economies, which shows that workers bear a disproportionately large share of the cost of labor reallocation. Unlike in developed economies, the negative consequences of job loss in developing countries like the Philippines are sustained over the medium term, and arguably over the long term.

The significant and sustained adverse welfare effects of job loss, which is believed to have increased with globalization as greater industry churning generates higher labor turnover, have important implications for policy. In particular, the results call for including in the policy agenda direct measures to alleviate the plight of displaced workers over the short and medium term, a better understanding of the changed nature and quality of

work under globalization, and a shift in development strategy and economic policies to promote full employment.

The recent wave of layoffs triggered by the global financial and economic crisis underlines the urgency of policy reform. The brunt of the current crisis appears to have been absorbed by the manufacturing sector. Manufacturing employment, based on the quarterly Labor Force Survey, was down to 2.8 million in January 2009 from over 3 million in October 2007, a net loss of some 280,000 jobs. This is equivalent to 5% of manufacturing employment. So far, manufacturing has posted five consecutive quarters of net job losses.

### DISCUSSION

To study the effects of job loss on workers, we conducted a non-random survey of displaced workers in order to

Written by CLARENCE PASCUAL

generate basic data on the characteristics of affected workers and the lost job, the post-displacement experience of affected workers, and the economic and non-economic effects of job loss on workers and their families. To gather qualitative information, the survey was supplemented with interviews and focus group discussions with respondents. This case study is based on the experiences of workers from two garments companies, Pilgrim Fashion, Inc. in Dasmariñas, Cavite and Novelty Philippines, Inc. in Sucat, Parañaque. It is supplemented with qualitative data from two other cases, Hidden Springs in Nagcarlan, Laguna and Soriano Multi-Purpose Fiber Corp. in San Pablo, Laguna.

The survey covered 148 former workers of Novelty and 47 former workers of Pilgrim. The sample is rather small and constitutes a critical limitation to this study. Median age at the time of survey was 42 and 43 for regular workers of Pilgrim and Novelty, respectively. More than half of workers in both companies were married. The majority were high school graduates, the educational attainment of the typical Filipino wage worker. Regular workers in the two firms worked in their lost job for an average of 10-15 years before displacement. Contractual workers had less attachment to the lost job with median tenure of only 2 years.

How long did displaced workers take to find their first post-layoff job? In the case of the displaced workers of Novelty, which ceased production in September 2003 or about 5 years from the survey date, we found that 32% or just below one-third of the sample held a wage job at anytime since layoff. The median unemployment duration for this group is 14 months, and ranges from 1 to 57 months. For the workers of Pilgrim,

which closed in November 2007, some 37% and 50% of regular and contractual workers, respectively, had already held a wage job 7 months since layoff. The median employment duration for both types of worker is 3 months. These results show dismal re-employment rates for displaced workers.

What kind of employment did workers find after layoff? Except in one case, all post-displacement wage jobs were temporary jobs—contractual, casual, or piece rate. This is true for workers of both firms, regular and contractual. Among workers of Novelty, only a few took up piece rate work. By contrast, regular workers of Pilgrim appeared more willing to take up piece rate work. This largely explains the shorter unemployment duration and higher re-employment rate. In practice, according to workers, piece rate work pays lower, regardless of the worker's productivity and does not have the benefit of employer's contribution in SSS and PhilHealth.

Displaced workers who found new jobs suffered earnings losses. The transition from regular to contractual or piece rate work explains the wage loss suffered by displaced workers. Thus, among workers of Novelty who were wage employees at the time of survey, the median daily wage fell from Php312 at 2003 prices (about Php350 pesos at current prices) to Php283 at current prices. In the case of regular workers of Pilgrim who were employed at survey date, the median daily earnings fell from Php325 to Php150.

Surprisingly, the post-displacement wage of contractual workers of Pilgrim was higher than their pre-displacement wage, Php264 vs. Php284. This is because the company paid contractual workers below market

wage. In exchange, it gave them some job security and stability by allowing repeat hiring without a break in service between contracts, which is in violation of the law.

At the time of survey, only one in four displaced workers was self-employed, which is low compared with one in three for the entire employed population. Moreover, there is no difference in the self-employment rate of regular workers of Pilgrim and those of Novelty. The seeming aversion of displaced regular workers to take up self-employment deserves further investigation.

Does the re-employment prospect of displaced workers improve with time? The experience of workers of Novelty who have seen a five-year lapse since they were laid off from the company offers a glimpse of an answer. While 32% found a wage job at some point after displacement, only 16% were holding on to a wage job at the time of survey. This indicates inability of workers to hold on to their new jobs.

The result is high unemployment rates and early exit from the labor force among displaced workers. Among regular workers of Pilgrim, unemployment was 37% at survey date about six months after layoff. By contrast, unemployment among displaced regular workers of Novelty was a high 61% at survey date or over four years after displacement. Taking the experience of Pilgrim and Novelty workers together, we can infer that low re-employment among displaced workers persists over the medium-term.

In the eyes of displaced workers, economic insecurity figures prominently as a cost of job loss. As mentioned earlier, most displaced workers were able to find jobs

but these were temporary and contractual with irregular work hours and earnings. The lack of benefits, social protection, health and safety, and absence of worker representation also characterize temporary employment. Self-employment or withdrawal from the labor force for those who do not find wage employment results in even greater economic uncertainty for displaced workers and their families. For those who exit from the labor force or the long-term unemployed, it could only mean dependence on other earning family members.

The welfare consequences of job loss are multi-faceted and long-lasting. Some of the welfare effects are obvious but need to be mentioned only because they are too easily dismissed in academic and policy discourse on efficiency and output growth. The adverse impact on worker's health and well-being—in too many cases leading to death—is one of the most dramatic costs of job loss. Job loss can have irreversible and long-term consequences. The death of a major earner could plunge the family into destitution. It could result in children dropping out of school, which perpetuates the cycle of poverty for the present and future generations. Furthermore, the effects extend beyond the immediate family of the displaced worker as in the case of parent's relying on financial support from the worker or relatives being sent to school by the worker.

## **POLICY IMPLICATIONS**

Policymakers can intervene in at least three areas. One, there is a need to put on policy agenda measures to alleviate the plight of displaced workers. For example, some form of unemployment and wage insurance, ensuring that firms pay separation and retirement pay, health and

social insurance coverage during periods of unemployment, and education loans for children of displaced workers. Fleshing out these ideas is beyond the scope of this paper, but feasible policy measures have been put forward elsewhere. The dogma that developing countries can ill-afford the costs—in terms of financial resources and disincentive effects on labor supply—associated with such measures needs rethinking.

Two, it is important that policymakers have a good understanding of the changed nature and quality of work in recent decades. The nature and quality of work available is an important determinant of the welfare of displaced workers. In particular, research must shed light on the myriad forms of employment arrangements found

in the labor market of the 21st century—the irregularity of work and the volatility of earnings among formal workers with little means to smooth consumption, increased labor turnover rate and the incidence and cost of displacement, the lack of security during periods of unemployment, the chances of re-employment, and so on.

Finally, there is a need to re-focus development strategy and macroeconomic policies so that they are consistent with the objective of full-employment. The low re-employment rates of displaced workers and the ability of firms to discriminate on the basis of age can be traced to the existence of a huge pool of reserve labor in the market, no thanks to the increasing inability of the economy to produce jobs.

## CONTACT INFORMATION

### **DLSU-Angelo King Institute**

St. La Salle Hall  
2401 Taft Avenue  
1004 Manila

Angelo King International Center  
Corner of Arellano Avenue and Estrada Street  
1004 Manila

+63-2-524-4611 loc. 287,  
+63-2-524-5333, +63-2-5245347 (Fax)  
<http://aki.dlsu.edu.ph>  
AKI@dlsu.edu.ph