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When discussing the gains visualized for labor through minimum wage legislation, it is elementary to keep three concepts distinct: the wage rate, or the measure of remuneration for a given unit of work; money earnings, or the money actually earned; real earnings, or the goods and services obtainable with the money earned. Raising wage-rates by legislative decree carries with it no guarantees that the end sought, an increase in the real earnings of the people, will be attained. In the first place employment may drop. A higher wage-rate is no good to the unemployed worker. Secondly, if the minimum wage law should raise wage-rates significantly, should compliance with the law be substantially good, and should no unemployment or underemployment develop, then there would be, as a result, a significant and fairly sudden rise in *money* incomes on the part of the workers. Unless the production of those basic goods which enter heavily in the budget of the working-man's family is raised with equal celerity, the prices of these items will go up, and wipe out any monetary gains that the workers may have realized.

This variety of consequences may be understood from what actually happened in the Philippines with the passage of the Minimum Wage Law. In 1948 the average wage-rate of agricultural workers in the Philippines was ₱1.66 a day. This was exclusive of meals. We also know that as of October of the same year (1948) weekly earnings per capita were ₱12, including the value of the meals given. In 1953 average wage-rates in agriculture were up to ₱2.07 for the entire Philippines, and weekly earnings dropped to ₱7.70. The 1948 figure for earnings is a *census* figure and therefore should enjoy great accuracy. The 1953 figure for earnings is an estimate of the Central Bank. It receives corroboration from the Rivera-McMillan report which sets weekly earnings for all workers, agricultural and non-agricultural, at ₱8.80. In 1948 the average farmer's (farm operator's) income was 60% higher than that of the average agricultural worker. By 1953 the disparity had risen to 75%.[1] Between 1948 and 1953 prices dropped by a mere 10%.[2]

The foregoing figures give us a clear example of the possibility of having earnings drop in spite of wage-rate increases. It is also evident from the figures that the lot of the farm-worker did not improve, since prices dropped a mere 10% while money earnings fell a full 35%. The figures do not prove conclusively that it was the Minimum Wage Law that *caused* this lessening of purchasing power; other possible causes would have to be excluded. However, does not the fact that the farm operator has improved his position vis-a-vis that of the worker, and this in spite of higher wage-rates, indicate that the farm operator tried to improve his income by using less labor? We know that the span of years under discussion saw a large influx of agricultural machinery into the country. This shift to mechanized farming seems to be the best explanation for the deteriorating condition of the farm laborer. And should one categorically deny that the Minimum Wage Law had an appreciable influence in accelerating this shift?

At very least, the above analysis should give pause to anyone who would try to improve the lot of the worker by legislating as a national minimum the wage-rate he considers necessary for decent living, without previous consideration of the capacity of the economy concerned. Do we conclude that the moralist should align himself against all minimum wage legislation? Certainly not, but he will favor only such legislation as is well conceived.

In the next paragraphs it will be well to review briefly the philosophy and the economic processes that underlie a legal minimum wage, before an examination of our own law and of the advisability of revamping it.

What are the objectives of minimum wage legislation? Historically, the minimum wage has been used for two purposes: first as a weapon against exploitation and secondly as a device to force the employer to adopt changes calculated to increase labor productivity.

The first of the two objectives is basic and extremely important when labor unions are not widely organized. If workers cannot bargain collectively their only protection lies in legislation. For the Philippines therefore where only a very small part of the labor force is organized, minimum wage legislation for this precise objective, the prevention of exploitation, is necessary. The mere prevention of exploitation can in no sense be said to discourage enterprise, since it does not deprive creditors or enterprisers of their just share of production. Neither does this prevention of exploitation, as such, put laborers out of work, since the enterpriser is not asked to pay wages beyond his capacity. All he is required to do is refrain from taking what is the worker's, at least in equity.

Trying to attain the second objective, i.e. increase labor productivity through the minimum wage, can bring about a great many complications worthy of careful study and consideration.

By labor productivity is meant the average volume of production per worker. It is the quotient of total production divided by the number of workers engaged in production, or if greater accuracy is desired, total production divided by man-hours of production. A minimum wage law brings about increases in productivity by the simple process of forcing out of business all the inefficient firms, or shall we say, all the less efficient firms unable to meet the higher labor costs brought on by the law. The market then is left to the more efficient firms remaining in operation. Less competition means more sales and larger scale production with all the economies that go with it. The economies of large scale production may come by simply using the already employed work force more fully, and by establishing a production line with a great division of labor, devices not necessarily calling for greater use of machinery. But the economies obtained this way are relatively small. The full value of large scale production comes with the substitution of mechanical power for human labor. Fr. Cronin describes quite lucidly the whole process by which productivity may be improved through minimum-wage legislation.

> Moreover, when the dynamics of the situation are considered, wages may be raised even in situations where the worker is currently paid his full economic value. Higher labor costs will generally force employers to seek means for lowering costs. New machines will be used and more efficient methods adopted. As a result workers will earn the higher wages which they now receive. Such adjustments take time, so that higher minimum-wage standards should be introduced slowly and with flexibility. While some industries or firms may founder in the process, the economy as a whole should benefit.[3]

If a firm closes down, the laborers lose their jobs, at least temporarily. If a legislator intends to force an increase in productivity through a minimum wage law, he should be quite sure that the economy is well able to absorb these displaced workers as well as the new recruits to the labor force coming in through the simple increase of population. Ordinarily, however, all these workers cannot be absorbed by the more efficient firms remaining in operation. Not unless we assume that the industry is enjoying an expansion of sales proportional to the increased productivity. The reason is simple: increased productivity means producing the same volume of goods with *less* work, or producing a *greater volume* with an equal amount of work. Hence to be able to re-employ the displaced workers in the same trade, the demand for the products of the trade must be increasing as fast as the productivity of the workers. Let us suppose that 10,000 workers produce what the market can absorb, e.g. 1,000,000 pairs of shoes a month. Say that with the introduction of machinery it becomes possible to produce the same amount with half the number of workers. To keep all of the workers employed in shoe production, sales have to expand to 2,000,000 pairs a month. Unfortunately, though machinery can be introduced quite rapidly, it takes time to build up sales. But perhaps there will be openings in other industries, say textiles, ceramics, and so forth. Perhaps. And again perhaps these other industries may be meeting the same troubles, and displacing workers with new machinery.

Now, in a highly industrialized country there is, as a matter of fact, a corrective to the situation described above. The man displaced by a machine might find work making other similar machines. The man thrown out of the shoe factory may find a job in a tooling plant making the very kind of a machine that cost him his former job. In a country like the Philippines, where industrialization is at the assembly plant stage, such a corrective does not exist. A job lost to a machine is a job exported to America, Japan or West Germany, wherever the machine originated. There is no tractor factory in Bacolod to give work to the sugar cane worker displaced by a new John Deere.

Another important effect of increased mechanization is the raising of the capital-to-labor ratio, i.e. the amount of fixed capital required to give employment to one worker. A carabao-plowed farm might give work to, say, 10 men with about ₱5,000 of fixed assets, not counting the value of the land. If a tractor were brought in to the same farm, two men might be employed profitably, but for these two men the fixed capital requirements would jump, say, to ₱15,000. With the use of carabaos we have a capital-to-labor ratio of ₱500. When the tractor is introduced the ratio jumps to ₱7,500 per man.

We should not try to prevent a gradual, and as it were, natural shift to mechanized production. As a man accumulates resources and is able to adopt processes of production which are sparing of labor but intense in the use of capital, let him do so. For many forms of industrial production there is no economic method open except through the use of machinery. To try to prevent mechanization in this area would be foolish. However, it is entirely a different thing to *accelerate* the process through legislation. Every increase in the capital-to-labor ratio is an added strain to the weakest point in our economy, our financial capacity.

Some figures will help visualize this weakness. In a typical month, paid-up capital of newly formed corporations and partnerships does not exceed ₱3,000,000. Enterprises of individuals may run up about the same amount of paid-up capital. This adds up to about ₱72 million a year.[4] In 1953 the Rehabilitation Finance Corporation, practically our only source of long-term credit, loaned out a total of ₱114 million—for all purposes.[5] The capital-to-labor ratio in the Philippines can only be the object of broad estimate. Let us say that we start pushing it up to ₱5,000 per worker, a conservative figure.[6] In that case we would need ₱7.5 billion to give employment to our 1.5 million unemployed; and long-term financing at an annual rate of ₱750 million to give work to the 150,000 workers that are added to our labor force every year. The ₱750 million does not cover depreciation replacement which runs at around ₱400 million a year.

Considering these figures it becomes obvious that any displacement of workers through mechanization is in fact aggravating the unemployment situation, any process which raises the capital-to-labor ratio is making the burden even more serious. Any person who boasts that our law is helping to increase labor productivity is implicitly admitting that the same law is aggravating the unemployment situation.

Adjustments are of course possible, the basic one being to accelerate capital accumulation through saving and more saving. However, as Fr. Cronin says, they take time. Not only that, the adjustments necessary to counteract the dislocations brought about by minimum wage legislation in the

Philippines will not come automatically, and anyone who brushes the problem aside is dangerously close to seeking refuge in the "invisible hand" of Adam Smith, righting everything wrong in the economy.

We want therefore a minimum wage law for the Philippines which will shave exploitation down to the bone if possible, but will not in any way aggravate the problem of unemployment by displacing workers with machines, by increasing the capital-to-labor ratio, or in any other way impeding the expansion of trade.

Can we consider our present law as an example of how to legislate in order to prevent exploitation without aggravating unemployment?

Minimum wage laws vary a great deal in the degree of flexibility they enjoy. The law can empower a body or several bodies to set various minima to suit the needs of varying industries and localities, as for example in Australia, or the law can set a *national* floor with little regard for divergent conditions in different industries and localities. Our law follows the second, more rigid type. Substantially our law comes down to a wage floor for industry of ₱4.00, and for agriculture of ₱2.50.

Maurice Dobb criticizes this type of legislation, where a national figure is set by the law-making body, thus:

> ...A figure laid down by an act of Parliament—to take the third case—is likely to be insufficiently flexible and adaptable: it may be at the same time sufficiently high in some industries where low-grade labor is employed to hamper employment, and sufficiently low relatively to existing standards in other industries to have no significance there as a minimum...

This simple sentence points out the essential and incontrovertible weakness of the type of minimum wage law we have, on the one hand incapable of cutting down exploitation as finely as a more flexible law would, and capable of doing a great deal of harm, which a more flexible law would be able to avoid.

Let us consider the average wage rates for agricultural workers classified by regions as of the year 1949, the last year before the submission of the Bell Report. The wage rates given refer to *money wages* exclusively. Over and above these wages two free meals were ordinarily given.[8]

DAILY WAGE RATES FOR AGRICULTURAL WORKERS CLASSIFIED BY REGIONS 1949

Ilocos-Mountain region	₱1.67
Cagayan Valley	1.76
Central Luzon	2.04
Southern Luzon	2.02
Southeastern Luzon	1.51
Eastern Visayas	1.27
Western Visayas	1.86

How are we to interpret the object of our present law, when we see these figures? How are we to interpret the mind of the legislator who set the agricultural minimum at ₱2.50? In his mind, did he consider that the Central Luzon farmer on the average exploited his labor by ₱.46 a day, while the Eastern Visayas farm operator was an ogre who pushed exploitation to the tune of ₱1.23 per worker per day? It should be quite evident to anyone by a cursory inspection of the table that the wage rates correspond to the very diverse agricultural conditions found in different regions of the country. It is easy to see why in Eastern Visayas, with its poor soil, its typhoons, and its primitive farming methods (some farms have not even been cultivated with a plow) wages should be almost half as low as in Central Luzon. Yet for such divergent economic conditions, one single agricultural minimum was set.

Another puzzle. The average wage-rate of unskilled workers in Manila in 1949 was ₱4.90.[9] The legal minimum for non-agricultural workers was set at ₱4.00, 18% *below* the average. The average agricultural wage for the entire country that same year was ₱1.73. The corresponding minimum was set at ₱2.50, 44% *above* the average. It should be noted also that the Bell Report suggested a different minimum wage for industrial workers outside Manila.[10] Our legislature disregarded the suggestion.

These considerations tend to prove only that our present law has a narrowness little suited to the extremely varied conditions of our economy, not that the minima are set too high. There have been no complaints about the rate for non-agricultural workers as applied to Manila.

Besides the strictures raised by the governors about the rates as applied to the provinces, there is this one other point to think about. A minimum wage rate should be such as to allow full employment of the worker for the whole year, say 300 days. A minimum wage of ₱2.50 daily would give the agricultural worker the yearly sum of ₱750 (supposing 300 days work). In 1953 the average farm *operator* earned a meagre ₱680. Can we expect an economy where the farm operator earns ₱680 annually to be able to employ its farm workers fully, so they may earn ₱750?

From all that has been said about the economics of minimum wages in general and about our Minimum Wage Law in particular, the least we can conclude is that the law needs serious re-examination. Certainly the strictures against it cannot be brushed aside lightly. It should be quite evident that one might align himself against the present law without need of being anti-labor, or being ignorant of the encyclicals, or appealing to Adam Smith. More thought and a more detailed and critical study of the statistics used may show that after all whatever objections there are against the Law are too small in the general scale of the problem to call for a revision of the law. But study, not just controversy, is in order.

All will agree that what is morally right must be safeguarded at all costs. Most will agree—and certainly this writer holds—that the true interests of the working man must be sedulously protected and promoted. The points about which the discussion therefore must revolve are: where does moral right lie and where the true interests of the workingman.

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[1] For the 1948 wage rate: *Report to the President of the United States by the Economic Survey Mission to the Philippines. Bell Report.* (Washington 1950) p. 16.

For the 1948 earnings: William I. Abraham. *The National Income of the Philippines and Its Distribution.* (Manila, 1950), p. 25. Mimeographed. Original material is from the 1948 census.

For the 1953 wage rate: "The Problem of Farm Wages," *Progress '54 Times-Mirror Annual Report,* p. 102.

For the 1953 earnings: "Economic Review for the First Quarter of 1954," *Central Bank News Digest.* VI. Nos. 43-44 (Nov. 11, 1954), p. 2.

For the 1951 earnings: Genaro F. Rivera and Robert T. McMillan. *The Rural Philippines* (Manila, 1952). p. 42.

The earnings tables are subjoined for those who may want to give more critical study to the matter. It should be noted that the 1953 table does not include the value of meals that may have been given. But that does not invalidate the statistics, because probably the extra meals are no longer given free, since the law allows a mere ₱.25 deduction for them. In view of this the practice would naturally be to pay a full money wage and then charge for the meals.

Abraham gives the per-capita earnings as a yearly sum, based on the original census figures of October 1948. Dividing the yearly sum by 52 gives a statistic of *weekly* earnings with more of the accuracy of the original. The Central Bank figures give yearly total earnings for each occupation group. Simple arithmetic can obtain per-capita weekly earnings. Apologies are in order for the wide use of *secondary* sources, but they were the only sources available to the writer in Cagayan de Oro.

[2] No index series was available to the writer with both 1948 and 1953 prices expressed relative to the same base year. Hence two separate series were used, and the years under comparison brought to comparable terms by "linking." *Central Bank News Digest,* VI, Nos. 43-44, inside front cover. Also: *Third Annual Report of the Central Bank of the Philippines* (1951), (Manila, 1952), p. 12.

[3] John F. Cronin, *Catholic Social Principles* (Milwaukee, 1950), p. 376.

[4] Manuel Elizalde, "The Philippine Economy Today," *Progress '54-Times-Mirror Annual Report,* p. 133.

[5] "Industrial Progress," *Ibid.,* p. 88.

[6] Central Bank estimates of net domestic investment for 1952 both public and private amounted to ₱491 million. *Fourth Annual Report of the Central Bank.* On the other hand the Central Bank estimates that the economy cannot create more than 60,000 jobs a year. *Central Bank News Digest,* VI, Nos. 43-44 p. 5. ₱490 million divided by 60,000 gives a marginal capital-to-labor of more than ₱8000.

[7] Maurice Dobb, *Wages* (Third Edition, Cambridge University Press, 1946), p. 200.

[8] *Bell Report,* p. 16.

[9] *Ibid.,* p. 91.

[10] *Ibid.,* p. 92.

EMPLOYMENT AND EARNINGS FROM USUAL OCCUPATION BY MAJOR POPULATION GROUPS, 1948

Population Group	Persons engaged: Number (Millions)	Persons engaged: Per cent	Av. ann. earnings from usual occ.[2]: Amount (₱) per engaged	Av. ann. earnings from usual occ.[2]: Index (farm laborers = 100)
Agricultural groups				
Laborers	1.3	26	630	100
Farmers and unpaid working dependents[1]	1.9	36	1,000	160
Total	3.2	62	840	135
Non-agricultural groups				
Employees	1.6	31	1,060	170
Entrepreneurs	0.4	7	1,460	230
Total	2.0	38	1,130	180
Total: All groups	5.2	100	950	150

[1]Includes most unpaid family dependents in farm households who are primarily engaged in farm work.

[2]Annual earnings of laborers and other employees are based on wages or salaries as reported in October, 1948, converted to full-year equivalents. The value of meals served to agricultural laborers is included in their earnings, but income in kind of farmers and other groups is only partially included. Average annual earnings are shown rounded to the nearest ₱10, and the corresponding index figures are rounded to the nearest 5.

DISTRIBUTION OF CASH INCOMES AMONG MAJOR LABOR FORCE GROUPS EMPLOYED IN 1953

Population Group	Number Thousands	Percent	Total Cash Million ₱	Earnings Percent
Agriculture	3,983	62.0	2,235	34.9
Laborers	1,670	26.0	655	10.2
Farmers	2,313	36.0	1,580	24.7
Non-Agriculture	2,441	38.0	4,160	65.1
Employees	1,991	31.0	1,830	28.6
Entrepreneurs	450	7.0	2,330	36.5
All Groups	6,424	100.0	6,395	100.0

SOURCES OF DATA: Central Bank estimates of employment in 1953 Fifth Annual Report, 1953.