

PASSIVE LABOR MARKET POLICIES - A COUNTRY CASE: THE PHILIPPINES

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Route map

- General principles about choosing the program
- Country-specific conditions as determinants of the choice - review by individual program

General principles about choosing the program

- Adopt holistic view
- Strike the right balance
- Introduce the system before the crisis
- “Once size does not fit all” -- offer a mix of programs

Country-specificity and the choice of programs

Choice of the program and:

- (1) Distribution (unemployed are not among the least prosperous)
- (2) Efficiency: effect on job search? Job creation? (Large informal sector!)
- (3) Low administrative capacity
- (4) Large private transfers

Country case: the Philippines

- Work in small groups
-- instructions to follow



The choice in the Philippines: distributive effects

Unemployment insurance	Neutral – perhaps more difficult exit from informal sector
Unemployment assistance	Means testing assures participation of the poor
Severance pay	Enhances inequality (less jobs)
UISA	No risk pooling – may serve primarily the rich
Public works	Self-selection via low wage assures participation of the poor

The choice in the Philippines: efficiency effects

Unemployment insurance	Incentive problems Increase of U and informal work
Unemployment assistance	Reduced job-search and incentives to take a job
Severance pay	Avoids incentives problem, reduces formal employment
UISA	Avoids incentives problem, less litigation costs as under SP
Public works	Low forgone earnings. Absorption of underemployed, seasonal workers

The choice in the Philippines: low administrative capacity

Unemployment insurance	Difficult enforcement of eligibility conditions, misuse
Unemployment assistance	Difficult enforcement of eligibility conditions, misuse
Severance pay	Modest administrative requirements
UISA	Not so demanding requirements
Public works	Modest requirements

The choice in the Philippines: large private transfers

Unemployment insurance	Value of benefits reduced, inefficient public monitoring displace more efficient private monitoring
Unemployment assistance	Same as UI
Severance pay	Value of benefits reduced
UISA	Value of benefits reduced
Public works	Still valuable, because transfers less available to the poor

Summary: when UI works best?

- Conducive labor market institutions.
- Low share of informal economy.
- Strong administrative capacity.
- Absence of persistent structural shocks.
- Low exposure to political risk.

Summary: how attractive is targeting under UA?

- Good targeting
- Expenditures:
 - Australia UA system quite expensive
 - But Estonia's exp. the lowest in Central Europe
- But administrative costs seem prohibitive (\$10 per person monitored, per year - University of the Philippines tuition waiver program)

Summary: the promise of UISA

- No more moral hazard
- Optimal amount of job search
- Incentives for those with negative cumulative balance as under standard UI system

The promise of UISA: does absence of cross-pooling matter?

- Simulation of individual accounts for the US, with unchanged UI benefits:
 - Only 5-7% of workers negative terminal balances
 - 24-33% negative balances at the end of the unemployment spell
- Promising option, particularly in some countries/cultures -- but there is a need for further investigation

Summary: Public works

- Very good distributive properties
- Open to informal sector workers
- Do not require complex administration
- But: self-selection via low wages needed
- Local cofinancing needed to assure that services are demand driven