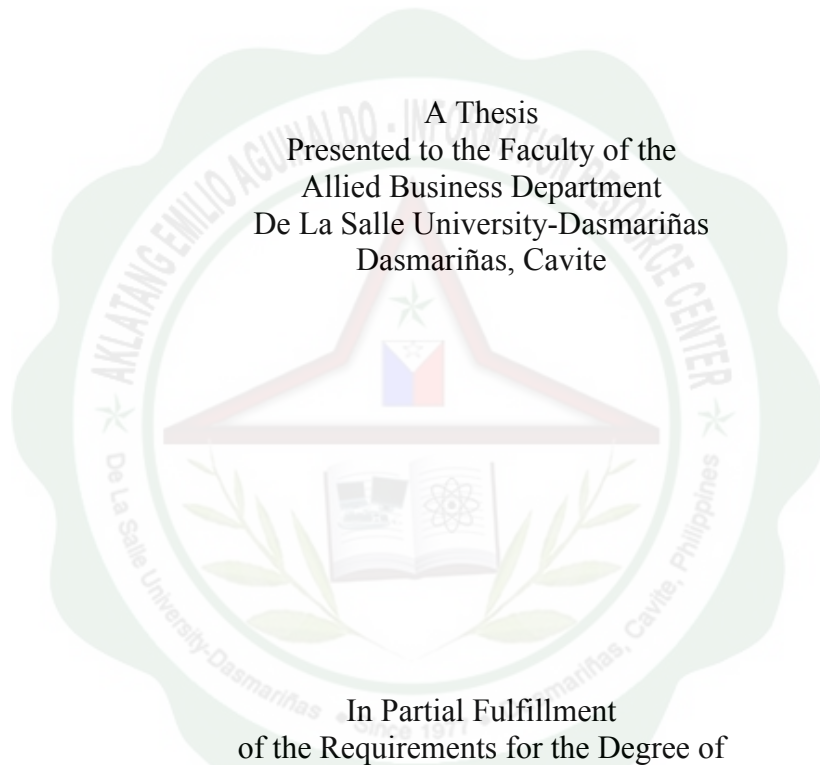




De La Salle University - Dasmariñas

**IMPACT OF MINIMUM WAGE LEGISLATION ON THE  
FORMAL AND INFORMAL LABOR MARKETS  
IN THE PHILIPPINES**

A Thesis  
Presented to the Faculty of the  
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In Partial Fulfillment  
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Bachelor of Science in Business Administration  
Major in Economics

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**ABSTRACT**

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In developed countries, an increase in minimum wages results in negative employment effects. This can be attributed to the minimum wage theory wherein increases in minimum wages lead to higher costs for businesses, translating into the displacement of workers. However, this theory is challenged in developing countries such as the Philippines since an increase in minimum wages leads to an increase in employment. This is attributable to the large incidence of surplus labor.

This study attempted to: (a) describe to profile of workers in the formal and informal sectors; (b) describe the trends of formal and informal sector employment, minimum wages, nominal and real average wages, and inflation; (c) determine the effect of minimum wages and inflation on formal sector average wages; and (d) analyze the effects of minimum wages on formal and informal sector employment.

The period covered by the study ranged from 1980 to 2011. The data used in the study include employment in the formal and informal sectors, average and real average wages in the formal sector, and inflation rates. The models used in this study include cointegrating regressions and error correction.

It was revealed that the informal sector constitutes a large percentage of employment. Cointegrating regressions showed that there was a positive



relationship between minimum wages and employment in both sectors and no spillover effects were observed. Minimum wages were also found to have a positive relationship with formal sector nominal and real average wages. With regards to error corrections, only the short-run relationship between minimum wages and formal sector employment was found to be statistically significant. Although the short-run relationships between minimum wages, average wages, and informal sector employment were positive, they were not statistically significant.

The policy implications of minimum wage legislation in the Philippines bring us to the proposition that in developing countries with labor surpluses, minimum wage legislation is seen to increase employment rather than increase unemployment. With this, the government should look into creating policies to increase minimum wages in order to promote the transfer of workers from the informal to the formal sectors. This gives workers more access to social protection and productive resources.



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