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Why the public discourse on education is wrong

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Last of 2 parts

Traps

IN the first part of this article, I argued that education, as understood in the public debate, is not the cause of the Philippines' poor competitiveness and low productivity. Instead, we should focus on the concept of trainability, which is not a constraint. In this second part, I elaborate on why good training matters to our nation.

The Filipino labor market suffers from three standard traps. The first one is that by focusing on exploiting low labor costs (e.g., by restricting wages or through devaluations) it has ended up stuck in a vicious circle of low productivity, deficient training, and a lack of skilled jobs, therefore preventing key sectors from competing effectively in the markets for skill-intensive products. This situation is referred to as a "low-skill, bad-job trap." Bad jobs are associated with low wages and few opportunities to accumulate human capital. Good jobs demand higher skills and command higher wages.

A second trap derives from the complementarities between capital and labor. This is the "low-skill, low-tech trap" problem. Filipino workers have insufficient skills to operate modern machines. The result is that the latter are underutilized. Consequently, firms will

have little incentive to invest in the latest technologies, which will reduce workers' productivity even more.

The third problem emerges from the interaction between innovation and skills. Innovating is crucial for developing technological capabilities, but it requires well-trained workers. Economies like the Philippines have got caught in a vicious circle in which firms do not innovate because the labor force is insufficiently skilled, and workers do not have incentives to invest in knowledge because there is no demand for these skills.

The above means that the relatively low demand for and supply of skills derives from rational decisions made by both firms and individuals within the particular legal and institutional framework in which they operate. The Philippines, with a low-skilled workforce, has greater incentives to produce nontraded services rather than tradables such as manufactured goods because the former are relatively protected from foreign competition. This pattern of specialization creates and perpetuates the demand for less skilled labor. The Presidential Commission on Educational Reform 2000 lamented that the education obtained in a typical Philippine college or university may only be equivalent to a secondary education from the better high schools in the country, or from a typical high school in Japan or Europe. Moreover, Filipinos prefer white-collar professions and look down upon vocational and technical education (training).

In an environment of global competition, Philippine organizations must focus on skills and competencies. Today's globalizing world demands organizations designed on skill-based systems that realize that the nature and content of jobs and their skill requirements are changing fast and adapt quickly to the new circumstances. Some specific sectors or activities may suffer from mismatches between the skills that firms demand and the practical knowledge that workers bring to the workplace. Where do these mismatches come from? On the one hand, the type of business, level of investment, and scale of operations, determine the competencies expected from employees. The prevailing global competition, and the spread of new

technologies affect those expectations. On the other hand, the knowledge, skills, and attitudes of the workforce are shaped by the existing social institutions, including the quality of basic education, support services, and government policy.

One of the most important consequences of deficient training is the lack of skilled workers, which leads to the manufacture and export of relatively poor-quality and low-value products. The manufacture of high-quality products requires highly trained workers. But if the country does not generate enough of these workers, firms will be forced to produce low-quality goods; and likewise, workers will acquire little training because few high-quality goods are produced, leading to a vicious circle. The choices made by employers reflect the availability of a skilled workforce. Different outputs require different types of training. Business people, aware that their workers are not highly skilled (and thus are more likely to make mistakes), will tend to specialize in the production of low-value products. Thus, the labor force will be more suited to the production of low-value than high value products.

In the end, firms' decisions about what type of products to manufacture depend on the availability of skilled labor. The result is that in countries that offer little support for education and training and that contain a large proportion of unskilled workers, the market mechanism may reinforce the existing lack of skills by providing little incentive to acquire more; whereas in countries with well-functioning educational and training institutions and large bodies of skilled labor, the free market may do much more to induce people to become skilled.

Returning to the productivity problem mentioned in the first part of the article, many Filipino firms, especially small and medium-sized, lack organizational capabilities (OCs), defined as the tacit knowhow to organize the flow of work in the factories and offices. It is easier to attain superior trainability in large companies. Low OCs result in low productivity and low-quality products. I insist that the solution to this problem is not workers with college degrees but excellent pre-school, primary and secondary education, and excellent

vocational training programs. This is where the Filipino educational system fails. Improving it requires acknowledging where the fault lies and dedicating resources to improving it.

Ultimately, development requires collective and systemic efforts at acquiring and accumulating productive knowledge through the construction of better organizations. The development of productive capabilities and the increase in productivity is not an individual activity but a social and collective process that requires private, public and cooperative efforts, and takes place in productive enterprises.

Jobs

I close this article with two notes. The first one is that while it is important to think about the skills that will be needed for tomorrow's jobs, the nation needs jobs for the workers it has today. If the education paradigm were true, it would imply that the Philippines would have to wait for a new whole generation of "well-educated" workers; and also, that today's Filipino workers cannot do what Korean or Singaporean workers did in the 1970s, what Chinese workers did in the 1990s and 2000s, and what Vietnamese workers seem to be doing today.

The second one is that, while the mismatches and traps I have described are a problem in the Philippines (in some sectors/activities), unemployment and underemployment are also the result of a shortage of employment. In these circumstances, training and other similar solutions will not eliminate the problem, but switch some individuals between unemployment and employment. The idea of transforming workers by educating them so that they become high-skilled laborers is simply not true. Lack of work is not solved with microeconomic policies (i.e., policies to help workers move from one job to the next). This problem is macroeconomic. Hence policies should be devised to generate employment, ideally to attain full employment.