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## Full Length Article

## Financing consumption over the lifecycle and overseas workers' remittances: Findings from the 1999 and 2007 Philippine National Transfer Accounts

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## ABSTRACT

This paper compares the patterns of consumption, labor income earned and financing of consumption at different ages or stages of the lifecycle of the average Filipino between the years 1999 and 2007 using the Philippine (NTA) for these years. The comparison shows some changes worth noting and these include the overall increase in per capita labor income and consumption in real terms, the rise in real per capita private health spending at older ages, and change in reliance on labor income as a source to finance consumption of the young and the elderly. Additionally, the implications of changing the definition or treatment of remittances of Overseas Filipino Workers (OFWs) in the estimation of the Philippine NTA are demonstrated and discussed. The 2007 NTA was estimated two ways: first with OFW remittances defined as mainly inter-household transfers; and, second, with OFW remittances defined as mainly labor income (earnings) in the revised estimates. The implications of the change in definition is examined by comparing the first and revised sets of 2007 NTA estimates, and it is noted that the definitional change results in a smaller lifecycle deficit or a smaller gap between consumption and labor income in the revised estimates, among others.

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## Introduction

Many Filipinos are seeking to work abroad because of better earnings prospects. Relatively higher earnings along with the continuing rise in the number of Overseas Filipino Workers (OFWs) deployed has made compensation of OFWs the fastest growing among the labor income components in the Philippines. The improved earnings not only benefited the overseas workers but also their families. In fact compensation from abroad contributed to the faster growth of total labor income relative to total consumption, thus putting the country in a better position to support the consumption of its population particularly the young and the elderly. The National Transfer Accounts (NTA), which is a comprehensive system for examining consumption, labor income and support systems of age groups and more specifically for the accounting of economic flows between age groups or generations, has been applied to Philippine data. The patterns of consumption,

labor income earned and financing of consumption at different ages or stages of the lifecycle of the average Filipino are compared between the years 1999 and 2007 using the Philippine NTA flow estimates for these years. OFW remittances or compensation is examined as a distinct component of labor income, and, additionally, the implications of alternative definition or treatment of OFW remittances in the estimation of the Philippine NTA are demonstrated and discussed.

The 2007 NTA was estimated in two different ways using alternative definitions for overseas worker remittances. The first set of 2007 estimates adopted the Bangko Sentral ng Pilipinas (BSP) definition which was based on the Balance of Payments Manual 5 (BPM5) and remittances were treated mainly as inter-household transfers (Abrigo et al., 2012a). The second set of estimates, referred to as the revised 2007 estimates, adopted the Philippine Statistics Authority (PSA) definition which is based on the Philippine System of National Accounts (PSNA) and remittances were treated mainly as compensation from the rest of the world or as labor income (Abrigo et al., 2012b). Application of the two alternative definitions would have no effect on the consumption estimates but would result to different estimates of levels and per capita age

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profiles of aggregate labor income and selected private transfer components.

For the comparison of the 1999 and 2007 NTA estimates, the estimates of both years applied the PSNA definition for overseas worker remittances. The aggregate totals and per capita age profiles for the two years are deflated for comparability using the consumer price index with 2000 as the base year. The financing of consumption by age group is compared between the two years using percentage distributions by type of financing. To examine the implications of a definitional change, the first (BPM5 definition) and the revised (PSNA definition) sets of 2007 NTA estimates are compared and this comparison is also done at constant 2000 prices. NTA results presented in this paper are drawn from [Abrigo et al. \(2014\)](#).

Data and methods used to produce the 1999 and 2007 NTA estimates are described in Section 'Data and methods'. Aggregate values of the main NTA components are discussed in Section 'Aggregate consumption, labor income and age reallocations'. Consumption, labor income and the lifecycle deficit age profiles, and finance of consumption by age group are discussed in the sections below. These sections (a) present findings from comparing the 1999 and 2007 NTA results, and, except for consumption, (b) describe the effects of the change in treatment of overseas worker remittances on estimates of the NTA components. Section 'Summary and Conclusion' concludes the paper.

#### *The context of the period 1999–2007*

The demographic and economic situation in the Philippines around the period 1999–2007 are briefly described to put the findings from the NTA in context. The change in population age structure during the period is indicated by data from the Census of Population and Housing for the years 2000 and 2010 ([Philippine Statistics Authority/National Statistical Coordination Board, 2013a](#)). In 2000 the young under 15 years old and the elderly 60 years old and over were 37.0% and 6.0% of the total population, respectively. In 2010 the corresponding percentages were 33.5% for the young and 6.8% for the elderly. The decline in the proportion young exceeded the increase in the proportion elderly. Thus, the period 1999–2007 is within the demographic phase when the share of the working age population to total population is still rising.

Economically, the period 1999–2007 followed a decade in which the Philippines experienced negative real growth rates in per capita Gross Domestic Product or GDP ([PSA/NSCB, 1997, 2003, 2013b](#)). The annual real growth rates were negative throughout 1989–1993, going as low as –3.1% in 1990–1991, and then again in 1997–1998 at –2.1%. In 1999–2007 the annual real growth rates of per capita GDP were consistently positive, generally exceeding 2.5%, and the highest growth since 1989 was experienced during this period: 4.4% in 1999–2000 and at 4.5% in 2006–2007. The positive annual real growth rates continued in the years after 2007, but were generally lower at less than 2.0% per year.

A key feature of the Philippine economy is its overseas workers and the associated international remittances. The number of OFWs deployed per year had increased significantly from an estimated 446 thousand in 1990–837 thousand in 1999, 1063 thousand in 2006 and 1430 thousand in 2012 ([PSA/NSCB, 2007, 2013a; Philippine Overseas Employment Administration POEA, 2013](#)). These figures are based on counts of overseas workers that had gone through the recruitment process authorized by the government. There are still additional numbers working abroad who are not included in the government statistics and they are referred to as “undocumented” workers. The rising number of Filipinos seeking jobs abroad is taking place within the context of high unemployment rate in the country through the years: 8.1% in 1990; 9.4% in 1999; 7.8% in July 2007; and 7.3% in July 2013. An interesting shift

in the composition of OFWs deployed is from being mainly sea-based prior to 1990 to being mainly land-based after 1990 – around 75% of OFWs were land-based in 2012 ([POEA, 2013](#)).

With the increasing deployment of OFWs per year, the ratio of international remittances (received by households) to the GDP had steadily risen, about 2.4% in 1990, 8.2% in 1999 and 9.7% in 2007 ([Bangko Sentral ng Pilipinas, 2014; PSA/NSCB, 2013a](#)). The ratios have fluctuated since 2008 but had stayed at around 9%–10% of the GDP each year. Compared to total labor income, compensation from abroad was 5% in 1990, 12% in 1999 and 19% in 2007.

#### *Overseas workers' remittances in the Philippine NTA*

Remittances received by Philippine households from abroad come from both temporary and permanent Filipino migrants. The tracking of these funds flows is done by the BSP, as the government agency that monitors and regulates transactions of the banking system, and the PSA, as the government agency that produces the National Accounts. Both agencies essentially classify international remittances received by households into two types, compensation from the rest of the world (ROW) and current transfers from ROW, based on the Philippine residency status of the remittance sender ([Talento, 2004; Gonzaga, 2007; Salas, 2010](#)). For both the BSP and PSA, remittances from senders who are Philippine residents are classified as income or compensation; while remittances from non-resident senders are classified as current transfers. In the Philippine NTA remittances classified as compensation from ROW is included in the labor income component and current transfers from ROW is included in the private inter-household transfers component.

The BSP and the PSA similarly define Filipinos overseas who are already permanent residents of their countries of destination as not residents of the Philippines. However, the BSP (following the BPM5) and the PSA (following the PSNA) use different criteria to determine the residency status of temporary overseas workers ([Talento, 2004; Gonzaga, 2007; Salas, 2010](#)). The PSNA uses one- and two-year thresholds for sea-based and land-based workers, respectively, based on the observation that the “predominant” center of interest of these temporary workers remains to be the Philippines even if they remain outside of the country for more than a year. Remittances from such workers are then classified in the PSNA as compensation from ROW. In the BPM5 a smaller proportion of overseas workers, i.e. only sea-based workers and performing artists with 6 month contracts, are considered as Philippine residents and the rest are not. Following this residency rule in the BPM5, a large portion, about 78% in 2007, of compensation from ROW (as classified in the PSNA) is reclassified as current transfers. Thus, overseas workers' remittances are mainly current transfers when the BPM5 definition for residency is used – which are then treated in the NTA as inter-household transfers; while remittances are mainly compensation from ROW when the PSNA definition for residency is used – which are then treated in the NTA as labor income.

The decision to adopt the PSNA definition for remittances in the Philippine NTA was made for several reasons. First, the Philippine NTA should maintain consistency with the PSNA, since the NTA is supposed to be an elaboration of the National Accounts. Aggregate controls in the NTA come from the National Accounts. Second, the true nature of the remittances and the senders should be reflected in the Philippine NTA. Arbitrarily assigning the residency status of overseas workers based on the number of years stay outside of the Philippines does not change the fact that these workers are abroad only temporarily. The PSNA definition captures more closely the nature of the stay of OFWs abroad. And, third, the Philippine NTA should properly reflect the productive contributions

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