

WAGE DISTORTION

A situation where an increase in the prescribed wage rates results in the **elimination** or **severe contraction** of intentional quantitative differences in wage or salary rates between and among employee groups in an establishment as to effectively obliterate the distinction embodied in such structures based on skills, length of service and other logical bases of differentiation.

(Article 124 of the Labor Code of the Philippines)

Elimination means that the previous wage differential or gap no longer exists. Severe contraction refers to contraction by more than 50% of the intended quantitative differences in pay between two groups of workers in an establishment.

(Metrobank and Trust Company Employees Union-ALU-TUCP vs. NLRC G.R. No. 102636)

ELEMENTS OF WAGE DISTORTION

- ✓ Existing hierarchy of positions with corresponding salary rates;
- ✓ Significant change in the salary rate of a lower pay class without a concomitant increase in the salary rate of a higher class;
- ✓ Elimination of distinction between the two (2) levels; and
- ✓ Existence of distortion is limited to jobs or position under the same employer in a region.

PROCEDURE TO CORRECT WAGE DISTORTION

For organized firms (with union)

- The employer and the workers' union shall negotiate to correct distortions;
- Any dispute arising from wage distortions shall be resolved through the grievance procedure under their collective bargaining agreement; and
- If it remains unresolved, the parties may push through with the process of voluntary arbitration.

For unorganized firms (without union)

- The employer and the workers shall endeavor to correct the wage distortions;
- Any dispute arising therefrom shall be subject to mandatory conciliation-mediation through the Single-Entry Approach (SEnA) of the National Conciliation and Mediation Board; and
- If there is no settlement, the dispute may be resolved through the labor arbiter or may be submitted by both parties through voluntary arbitration.

Strikes, lockouts, and other concerted action by either the union or management arising from wage distortion are considered **illegal**.

A dispute arising from a wage distortion should not, in any way, prevent or delay the application of a Wage Order.

SUGGESTED FORMULAS IN CORRECTING WAGE DISTORTION

Pineda Formula	$\text{Wage distortion adjustment} = \frac{\text{Existing minimum wage}}{\text{Wage of employee}} \times \text{Mandated wage increase}$
Pineda-Cruz So Formula	$\text{Wage distortion adjustment} = \left[\frac{\text{Existing minimum wage}}{\text{Wage of employee}} \right]^n \times \text{Mandated wage increase}$ <p style="font-size: small; margin-top: 5px;">Where: n = Any integer</p>
Percentile Approach Formula	$\text{Wage distortion adjustment} = \text{Percentile weight of pay group} \times \text{Mandated wage increase}$
Philippine Construction Supply Formula	$\text{Wage distortion adjustment} = \frac{\text{Existing minimum wage}}{\text{Formula base rate (FBR)}} \times \text{Mandated wage increase}$ <p style="font-size: small; margin-top: 5px;">Where: FBR = Actual wage rate + Agreed amount of adjustment</p>
Wirerope Formula	$\text{Wage distortion adjustment} = \frac{\text{Existing minimum wage}}{\text{Present wage of employee}} \times \frac{(\text{Mandated wage increase}) - \text{Creditable increase}}$
Bagtas Approach	$\text{Wage distortion adjustment} = \frac{\text{Mandated wage increase}}{\text{Existing minimum wage}} \times \text{Present wage of employee}$