

DEVELOPMENT BANK OF THE PHILIPPINES, PETITIONER, VS. NATIONAL LABOR RELATIONS COMMISSION, LABOR ARBITER ISABEL P. ORTIGUERRA, AND LABOR ALLIANCE FOR NATIONAL DEVELOPMENT, RESPON...

G.R. NOs. 82763-64. March 19, 1990

Ponente: MELENCIO-HERRERA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-nos-82763-64/>

MELENCIO-HERRERA, J.:

This Petition for Certiorari addresses itself to the 12 February 1986 Order of the National Labor Relations Commission directing petitioner Development Bank of the Philippines (DBP) to remit the sum of P6,292,380.00 "out of proceeds of the foreclosed properties of Lirag Textile Mills, Inc., sold at public auction in order to satisfy the judgment" in NLRC Cases Nos. NCR-3-2581-82 and 2-2090-82.

The background facts of these two cases may be summarized as follows:

The complainants in the two cases filed below were former employees of Lirag Textile Mills, Inc. (LIRAG, for short). LIRAG was a mortgage debtor of DBP. Private respondent Labor Alliance for National Development (LAND, for brevity) was the bargaining representative of the more or less 800 former rank and file employees of LIRAG. Around September 1981, LIRAG started terminating the services of its employees on the ground of retrenchment. By December of the said year there were already 180 regular employees separated from the service. LIRAG has since ceased operations presumably due to financial reverses.

In February 1982, Joselito Albay, one of the employees dismissed in September 1981, filed a complaint before the National Labor Relations Commission (NLRC) against LIRAG for illegal dismissal (Case No. 2-2090-82). On 1 March 1982, LAND, on behalf of 180 dismissed members, also filed a Complaint against LIRAG seeking separation pay, 13th month pay, gratuity pay, sick leave and vacation leave pay and emergency allowance (Case No. 3-2581-82). These two cases were consolidated and jointly heard by the NLRC. Said complainants have since been joined by supervisors and managers.

In a Decision, dated 30 July 1982, Labor Arbiter Apolinar L. Sevilla ordered LIRAG to pay the individual complainants. The NLRC (Third Division) affirmed the same on 28 March 1983. That judgment became final and executory.

On 15 April 1983, a Writ of Execution was issued. On the same day, DBP extrajudicially foreclosed the mortgaged properties for failure of LIRAG to pay its mortgage obligation. As the only bidder at the foreclosure sale, DBP acquired said mortgaged properties for P31,346,462.90. Since DBP was the sole mortgagee, no actual payment was made, the amount of the bid having been merely credited in partial satisfaction of LIRAG's indebtedness.

By reason of said foreclosure, the Writ of Execution issued in favor of the complainants remained unsatisfied. A Notice of Levy on Execution on the properties of LIRAG was then entered.

On 7 December 1984, LAND filed a "Motion for Writ of Execution and Garnishment" of the proceeds of the foreclosure sale.

On 30 May 1985, upon motion of LAND, Labor Arbiter Apolinar L. Sevilla ordered the DBP impleaded "in the interest of justice and due process," and required it to intervene.

On 12 February 1986, and over the opposition of DBP, Labor Arbiter Sevilla granted the Writ of Garnishment and directed DBP to remit to the NLRC the sum of P6,292,380.00 out of the proceeds of the foreclosed properties of LIRAG sold at public auction in order to satisfy the judgment previously rendered.

DBP sought reconsideration of the above Order on the grounds of NLRC's lack of jurisdiction over it since it was not a party to the case, and that it was deprived of its property without due process of law. Public respondent, Labor Arbiter Isabel P. Ortiguerra, denied reconsideration on 25 May 1987. DBP appealed that denial to the NLRC.

In the meantime, on 3 February 1987, by virtue of Proclamation Nos. 50 and 50-A, the Asset Privatization Trust (APT) became the transferee of the DBP foreclosed assets of LIRAG. On 12 July 1989, by virtue of that transfer, we deemed APT impleaded as a party-petitioner and gave it time within which to file its pleading. It submitted a Memorandum on 22 November 1989.

It appears that on 21 December 1987, a partial Compromise Agreement was entered into between APT and LAND (Litex Chapter) whereby APT paid the complainants-employees, ex gratia, the sum of P750,000.00 "in full settlement of their claims, past and present, with respect to all assets of LITEX transferred by DBP to APT." That amount was received by LAND's local President. Apparently, however, on 25 January 1988, LAND, through its national President, filed its opposition to the Compromise Agreement for being contrary to law, morals and public policy.

On 25 March 1988, the NLRC (First Division) affirmed the appealed Order and dismissed the DBP appeal.

DBP is now before us seeking a review and reversal. On 30 January 1989, the Court resolved to give due course to the petition and to require the parties to submit simultaneous memoranda. On 1 February 1990, the Court's Second Division referred the case to the Court en banc, which the latter accepted on the same date.

It is true that DBP was not an original party and that it was ordered impleaded only after the Writs of Execution were not satisfied because the properties levied upon on execution had been foreclosed extrajudicially by it. DBP had to be impleaded, however, for the proper satisfaction of a final judgment. Being an incident in the execution of the final judgment award, NLRC retained jurisdiction and control over the case and could issue such orders as were necessary for the implementation of that award. Its inclusion as a party could not have been accomplished at the earlier stages of the proceedings because at the time of the filing of the Complaint, private respondents' cause of action was only against LIRAG.

DBP cannot rightfully contend that it was deprived of due process. It was given the opportunity to be heard and to present its evidence. It had actually filed its Opposition to the Motion for Execution and Garnishment filed by LAND on 7 January 1985, and the Order granting the Motion was issued only after hearing. DBP had also addressed an appeal to the NLRC. It had submitted, therefore, to the jurisdiction of the NLRC.

Now, for the core issue - whether or not the NLRC gravely abused its discretion in affirming the Order of the Labor Arbiter granting the Writ of Garnishment out of the proceeds of LIRAG's properties foreclosed by DBP to satisfy the judgment in these cases.

We are constrained to rule in the affirmative.

Article 110 of the Labor Code provides:

"Article 110. Worker preference in case of bankruptcy. In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards wages due them for services rendered during the period prior to the bankruptcy or liquidation, any provision to the contrary notwithstanding. Unpaid wages shall be paid in full before other creditors may establish any claim to a share in the assets of the employer."

In implementation of the foregoing, Section 10, Rule VIII, Book III of the Revised Rules and Regulations Implementing the Labor Code, as amended, provides:

"Section 10. Payment of wages in case of bankruptcy. Unpaid wages earned by the employees before the declaration of bankruptcy or judicial liquidation of the employer's business shall be given first preference and shall be paid in full before other creditors may establish any claim to a share in the assets of the employer." (Underscoring supplied).

In interpreting the foregoing provisions, the Court, in *Development Bank of the Philippines vs. Santos* (G. R. Nos. 78261-62, 8 March 1989), categorically stated:

"It is quite clear from the provisions that a declaration of bankruptcy or a judicial liquidation must be present before the worker's preference may be enforced. Thus, Article 110 of the Labor Code and its implementing rule cannot be invoked by the respondents in this case absent a formal declaration of bankruptcy or a liquidation order. x x x"

Since then, however, Article 110 has been amended by Republic Act No. 6715 and now reads as follows:

"SECTION 1. Article 110 of Presidential Decree No. 442, as amended, otherwise known as the Labor Code of the Philippines, is hereby further amended to read as follows:

"Article 110. Worker preference in case of bankruptcy. In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards their unpaid wages and other monetary claims, any provision of law to the contrary notwithstanding. Such unpaid wages and monetary claims shall be paid in full before the claims of the Government and other creditors may be paid." (Amendments underlined).

The amendment expands worker preference to cover not only unpaid wages but also other monetary claims to which even claims of the Government must be deemed subordinate.

Section 10, Rule III, Book III of the Omnibus Rules Implementing the Labor Code has also been amended by Section 1 of the Rules and Regulations Implementing RA 6715 as approved by the then Secretary of Labor and Employment on 24 May 1989, and now provides:

"Section 10. Payment of wages and other monetary claims in case of bankruptcy. In case of bankruptcy or liquidation of the employer's business, the unpaid wages and other monetary claims of the employees shall be given first preference and shall be paid in full before the claims of government and other creditors may be paid."

Notably, the terms "declaration" of bankruptcy or "judicial" liquidation have been eliminated. Does this mean then that liquidation proceedings have been done away with?

We opine in the negative, upon the following considerations:

1. Because of its impact on the entire system of credit, Article 110 of the Labor Code cannot be viewed in isolation but must be read in relation to the Civil Code scheme on classification and preference of credits.

"Article 110 of the Labor Code, in determining the reach of its terms, cannot be viewed in isolation. Rather,

Article 110 must be read in relation to the provisions of the Civil Code concerning the classification, concurrence and preference of credits, which provisions find particular application in insolvency proceedings where the claims of all creditors, preferred or non-preferred, may be adjudicated in a binding manner. x x x" (Republic vs. Peralta (G. R. No. L-56568, May 20, 1987, 150 SCRA 37).

2. In the same way that the Civil Code provisions on classification of credits and the Insolvency Law have been brought into harmony, so also must the kindred provisions of the Labor Law be made to harmonize with those laws.

3. In the event of insolvency, a principal objective should be to effect an equitable distribution of the insolvent's property among his creditors. To accomplish this there must first be some proceeding where notice to all of the insolvent's creditors may be given and where the claims of preferred creditors may be bindingly adjudicated (De Barretto vs. Villanueva, No. L-14938, December 29, 1962, 6 SCRA 928). The rationale therefor has been expressed in the recent case of DBP vs. Secretary of Labor (G.R. No. 79351, 28 November 1989), which we quote:

"A preference of credit bestows upon the preferred creditor an advantage of having his credit satisfied first ahead of other claims which may be established against the debtor. Logically, it becomes material only when the properties and assets of the debtors are insufficient to pay his debts in full; for if the debtor is amply able to pay his various creditors in full, how can the necessity exist to determine which of his creditors shall be paid first or whether they shall be paid out of the proceeds of the sale of the debtor's specific property? Indubitably, the preferential right of credit attains significance only after the properties of the debtor have been inventoried and liquidated, and the claims held by his various creditors have been established (Kuenzle & Streiff (Ltd.) vs Villanueva, 41 Phil 611 (1916); Barretto vs Villanueva, G.R. No. 14938, 29 December 1962, 6 SCRA 928; Philippine Savings Bank vs Lantin, G.R. 33929, 2 September 1983, 124 SCRA 476).

4. A distinction should be made between a preference of credit and a lien. A preference applies only to claims which do not attach to specific properties. A lien creates a charge on a particular property. The right of first preference as regards unpaid wages recognized by Article 110 does not constitute a lien on the property of the insolvent debtor in favor of workers. It is but a preference of credit in their favor, a preference in application. It is a method adopted to determine and specify the order in which credits should be paid in the final distribution of the proceeds of the insolvent's assets. It is a right to a first preference in the discharge of the funds of the judgment debtor. In the words of Republic vs. Peralta, supra:

"Article 110 of the Labor Code does not purport to create a lien in favor of workers or employees for unpaid wages either upon all of the properties or upon any particular property owned by their employer. Claims for unpaid wages do not therefore fall at all within the category of specially preferred claims established under Articles 2241 and 2242 of the Civil Code, except to the extent that such claims for unpaid wages are already covered by Article 2241, number 6: 'claims for laborers' wages, on the goods manufactured or the work done; or by Article 2242, number 3: 'claims of laborers and other workers engaged in the construction, reconstruction or repair of buildings, canals and other works, upon said buildings, canals and other works, upon said buildings, canals or other works.' To the extent that claims for unpaid wages fall outside the scope of Article 2241, number 6 and 2242, number 3, they would come within the ambit of the category of ordinary preferred credits under Article 2244."

5. The DBP anchors its claim on a mortgage credit. A mortgage directly and immediately subjects the property upon which it is imposed, whoever the possessor may be, to the fulfillment of the obligation for whose security it was constituted (Article 2176, Civil Code). It creates a real right which is enforceable against the whole world. It is a lien on an identified immovable property, which a preference is not. A recorded mortgage credit is a special preferred credit under Article 2242 (5) of the Civil Code on classification of credits. The preference given by

Article 110, when not falling within Article 2241 (6) and Article 2242 (3) of the Civil Code and not attached to any specific property, is an ordinary preferred credit although its impact is to move it from second priority to first priority in the order of preference established by Article 2244 of the Civil Code (Republic vs. Peralta, supra).

In fact, under the Insolvency Law (Section 29) a creditor holding a mortgage or lien of any kind as security is not permitted to vote in the election of the assignee in insolvency proceedings unless the value of his security is first fixed or he surrenders all such property to the receiver of the insolvent's estate.

6. Even if Article 110 and its Implementing Rule, as amended, should be interpreted to mean "absolute preference," the same should be given only prospective effect in line with the cardinal rule that laws shall have no retroactive effect, unless the contrary is provided (Article 4, Civil Code). Thereby, any infringement on the constitutional guarantee on non-impairment of the obligation of contracts (Section 10, Article III, 1987 Constitution) is also avoided. In point of fact, DBP's mortgage credit antedated by several years the amendatory law, RA No. 6715. To give Article 110 retroactive effect would be to wipe out the mortgage in DBP's favor and expose it to a risk which it sought to protect itself against by requiring a collateral in the form of real property.

In fine, the right to preference given to workers under Article 110 of the Labor Code cannot exist in any effective way prior to the time of its presentation in distribution proceedings. It will find application when, in proceedings such as insolvency, such unpaid wages shall be paid in full before the "claims of the Government and other creditors" may be paid. But, for an orderly settlement of a debtor's assets, all creditors must be convened, their claims ascertained and inventoried, and thereafter the preferences determined in the course of judicial proceedings which have for their object the subjection of the property of the debtor to the payment of his debts or other lawful obligations. Thereby, an orderly determination of preference of creditors' claims is assured (Philippine Savings Bank vs. Lantin, No. L-33929, September 2, 1983, 124 SCRA 476); the adjudication made will be binding on all parties-in-interest, since those proceedings are proceedings in rem; and the legal scheme of classification, concurrence and preference of credits in the Civil Code, the Insolvency Law, and the Labor Code is preserved in harmony.

WHEREFORE, Certiorari is GRANTED, and the assailed Decision of public respondent, the National Labor Relations Commission (NLRC), dated 25 March 1988, is hereby SET ASIDE.

The Development Bank of the Philippines, the Asset Privatization Trust, the Labor Alliance for National Development (LAND), and other creditors who may be so minded; are hereby directed, within sixty (60) days from notice, to institute involuntary insolvency proceedings before the proper Court where all the assets of Lirag Textile Mills, Inc., may be inventoried, the preferences of all its creditors determined, and their claims discharged in a binding and conclusive manner. No costs.

SO ORDERED.

Fernan, C.J., Narvasa, Gutierrez, Jr., Feliciano, Gancayco, Bidin, Cortes, Grino-Aquino, Medialdea, and Regalado, JJ., concur.

Cruz, Padilla, and Sarmiento, JJ., see dissent.

Paras, J., concurs w/ J. Padilla's dissent.

DISSENTING OPINION

CRUZ, J.:

I was the lone dissenter in *Republic v. Peralta*, 150 SCRA 37, which is the mainstay of the present majority ponencia. Even then, I was convinced that it was the intention of the legislature to give absolute preference to the workers' claims pursuant to the social justice policy. The amendment of Article 110 of the Labor Code only strengthens that conviction and, I like to think, vindicates my original position. I reiterate it now and repeat that:

Social justice is not a mere catchphrase to be mouthed with sham fervor in Labor Day celebrations for the delectation and seduction of the working class. It is a mandate we should pursue with energy and sincerity if we are to truly insure the dignity and well-being of the laborer.

I am proud to dissent once again on the side of labor.

DISSENTING OPINION**PADILLA, J.:**

The material facts are not disputed. Lirag Textile (LIRAG) ceased operations by early 1982. Pursuant to a final and executory judgment of the NLRC, dated 20 March 1983, LIRAG was adjudged liable to its workers for unpaid wages and salaries which, as of 12 February 1986, amounted to P6,292,380.00.

LIRAG's only remaining asset was mortgaged to Development Bank of the Philippines (DBP) which on 15 April 1983 foreclosed the mortgage and acquired said property at public auction for P31,346,462.90, in partial satisfaction of LIRAG's indebtedness to DBP. LIRAG's workers through their union (LAND) thereupon sought to garnish on DBP the proceeds of the foreclosure sale, to the extent of their adjudged unpaid wages (P6,292,380.00). The NLRC ruled for LAND over DBP's objection. The issue therefore, in practical terms, is whether P6,292,380.00 should be deducted from the P31,346,462.90 realized by DBP from the foreclosure sale of LIRAG's property, to fully satisfy LAND'S claim for LIRAG workers' unpaid wages, thereby leaving a balance of P25,054,082.90 only in partial satisfaction of LIRAG's debt to DBP.

The majority holds that LAND may not enforce its first preference in the satisfaction of unpaid monetary claims of its members, viz. LIRAG's workers, over that of DBP, in the absence of a formal declaration of bankruptcy or judicial liquidation of LIRAG's business.

I regret that I cannot join the majority ruling in the light of the amendment to Article 110 of the Labor Code by Republic Act 6715, approved on 2 March 1989, and the resultant amendment of Section 10, Rule VIII, Book III of the Revised Rules and Regulations Implementing the Labor Code.

Before its amendment by Republic Act 6715, Article 110 of the Labor Code provided -

"Worker preference in case of bankruptcy. - In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards wages due them for services rendered during the period prior to the bankruptcy or liquidation, any provision of law to the contrary notwithstanding. Unpaid wages shall be paid in full before other creditors may establish any claim to a share in the assets of the employer."

After Republic Act 6715, Art. 110 now provides:

"Worker preference in case of bankruptcy. - In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards their wages and other monetary claims, any provisions of law to the contrary notwithstanding. Such unpaid wages and monetary claims shall be paid in full

before claims of the government and other creditors may be paid."

Section 10 of the Implementing Rules, before Republic Act 6715, provided:

"Payment of wages in case of bankruptcy. - Unpaid wages earned by the employees before the declaration of bankruptcy or judicial liquidation of the employer's business shall be given first preference and shall be paid in full before other creditors may establish any claim to a share in the assets of the employer."

After Republic Act 6715, Section 10 of the Rules now provides:

"Payment of wages and other monetary claims in case of bankruptcy. - In case of bankruptcy or liquidation of the employer's business, the unpaid wages and other monetary claims of the employees shall be given first preference and shall be paid in full before the claims of government and other creditors may be paid."

The majority, in my considered opinion, has failed to fully take into account the radical change introduced by Republic Act 6715 into the system of priorities or preferences among credits or creditors ordained by the Civil Code.

Under the provisions of the Civil Code, specifically, Articles 2241 and 2242, jointly with Articles 2246 to 2249, a two-tier order of preference of credits is established. The first tier includes only taxes, duties and fees on specific movable or immovable property. All other special preferred credits stand on a second tier.[1]

Under the system of preferences in the Civil Code, only taxes enjoy absolute preference, i.e. they exclude the credits of the lower order until such taxes are fully satisfied out of the proceeds of the sale of the property subject of the preference, and taxes can even exhaust such proceeds. All other special preferred credits enjoy no priority among themselves but must be paid or satisfied pro rata. To make the prorating fully effective, the preferred creditors enumerated in Nos. 2 to 13 of Article 2241 and Nos. 2 to 10 of Article 2242 must be convened and the import of their claims ascertained in some proceeding where the claims of all may be bindingly adjudicated.

With the amendment of Article 110 of the Labor Code by Republic Act 6715, a three-tier order of preference is established wherein unpaid wages and other monetary claims of workers enjoy absolute preference over all other claims, including those of the Government, in cases where a debtor-employer is unable to pay in full all his obligations. The absolute preference given to monetary claims of workers, to which claims of the Government, i.e. taxes, are now subordinated, manifests the clear and deliberate intent of our lawmaker to put flesh and blood into the expressed Constitutional policy of protecting the rights of workers and promoting their welfare.[2]

I thus take exception to the proposition that a prior formal declaration of insolvency or bankruptcy or a judicial liquidation of the employer's business is a condition sine qua non to the operation of the preference accorded to workers under Article 110 of the Labor Code, for the following specific reasons:

First, the majority reads into the aforesaid law and implementing rule a qualification that is not there. Nowhere is it stated in the present law and its new implementing rule that a prior declaration of bankruptcy or judicial liquidation is a condition sine qua non to the operation of Article 110. In fact, it will be noted that the phrase declaration of bankruptcy or judicial liquidation of the employer's business, which formerly appeared in Section 10, Rule VIII, Book III of the Revised Rules and Regulations Implementing the Labor Code has been deleted in the new implementing rule. What is to me even more obvious and, therefore, significant in the present law and implementing new rule is the unconditional and unqualified grant of priority to workers' monetary claims over and above all other claims as against all the assets of an employer incapable of fully paying his obligations.

Second, a proceeding in rem, by its nature, seeks to bar any other person who claims any interest in the property or right subject of the suit. To my mind, such a proceeding is not essential or necessary to enforce the workers'

preferential right over the assets of the insolvent debtor as against other creditors of the lower tier, as Article 110 of the Labor Code itself bars the satisfaction of claims of other creditors, including the Government, until unpaid wages and monetary claims of the workers are first satisfied in full. Further, it appears that such a proceeding is essential only where the credits are concurring and enjoy no preference over one another, but not when the law accords to one of the credits absolute priority and undisputed supremacy. This submission finds support, by analogy, in the case of *De Barreto vs. Villanueva*, where the Court stated:

"Thus it becomes evident that one preferred creditor's third party claim to the proceeds of the foreclosure (as in the case now before us) is not the proceeding contemplated by law for the enforcement of preference under Article 2242, unless the claimant were enforcing credit for taxes that enjoy absolute priority. If none of the claim is for taxes, a dispute between two creditors will not enable the court to ascertain the prorata dividend corresponding to each, because the rights of other creditors likewise enjoying preference under Article 2242 cannot be ascertained." [3] (underscoring ours)

In sum, it is to me clear that, whether or not there be a judicial proceeding in rem, i.e., insolvency, bankruptcy or liquidation proceedings, the fact remains that Congress intends that the assets of the insolvent debtor be held, first and above all else, to satisfy in full the unpaid wages and monetary claims of its workers. Translated into the case at bar, a formal declaration of insolvency or bankruptcy or judicial liquidation of the employer's business should not be a price imposed upon the workers to enable them to get their much needed and already adjudicated unpaid wages. This position, I believe, is only in keeping with a fundamental state policy enshrined in the Constitutional mandate to accord protection to labor. The legislative intent being clear and manifest, it is the duty of this Court, I submit, not to decimate but to give it breath and life.

ACCORDINGLY, I vote to DISMISS the DBP petition and to AFFIRM the resolution of the NLRC in favor of LAND.

[1] *Republic v. Peralta*, 150 SCRA 37

[2] Art. II, Section 18 of the 1987 Constitution provides:

The State affirms labor as a primary social economic force. It shall protect the rights of workers and promote their welfare.

[3] *De Barreto v. Villanueva*, 6 SCRA 928

DISSENTING OPINION

SARMIENTO, J.:

I join Mr. Justice Teodoro Padilla in his dissent. It is also my considered opinion that under Republic Act No. 6715, the payment of unpaid wages and other benefits to labor enjoys preference over all other indebtednesses, including taxes, of management, with or without a declaration of insolvency.

It is likewise so, because labor enjoys protection not only from statute but from the very Constitution. Thus:

Sec. 18. The State affirms labor as a primary social economic force. It shall protect the rights of workers and promote their welfare. (Article II)

xxx xxx xxx

Sec. 3. The State shall afford full protection to labor, local and overseas, organized and unorganized, and

promote full employment and equality of employment opportunities for all.

It shall guarantee the rights of all workers to self-organization, collective bargaining and negotiations, and peaceful concerted activities, including the right to strike in accordance with law. They shall be entitled to security of tenure, humane conditions of work, and a living wage. They shall also participate in policy and decision-making processes affecting their rights and benefits as may be provided by law.

The State shall promote the principle of shared responsibility between workers and employers and the preferential use of voluntary modes in settling disputes, including conciliation, and shall enforce their mutual compliance therewith to foster industrial peace.

The State shall regulate the relations between workers and employers, recognizing the right of labor to its just share in the fruits of production and the right of enterprises to reasonable returns on investments, and to expansion and growth. (Article XIII)

On the other hand, under the Labor Code:

ART. 3. Declaration of basic policy.--The State shall afford protection to labor, promote full employment, ensure equal work opportunities regardless of sex, race or creed and regulate the relations between workers and employers. The State shall assure the rights of workers to self-organization, collective bargaining, security of tenure, and just and humane conditions of work.

ART. 4. Construction in favor of labor.-- All doubts in the implementation and interpretation of the provisions of this code, including its implementing rules and regulations, shall be resolved in favor of labor.

Under the Civil Code:

ART. 1700. The relations between capital and labor are not merely contractual. They are so impressed with public interest that labor contracts must yield to the common good. Therefore, such contracts are subject to the special laws on labor unions, collective bargaining, strikes and lockouts, closed shop, wages, working conditions, hours of labor and similar subjects.

xxx xxx xxx

ART. 1702. In case of doubt, all labor legislation and all labor contracts shall be construed in favor of the safety and decent living for the laborer.

It is true that under the Charter, "[n]o person shall be deprived," among other things, "of property without due process of law," however, the basic document also states, that:

Sec. 6. The use of property bears a social function, and all economic agents shall contribute to the common good. Individuals and private groups, including corporations, cooperatives, and similar collective organizations, shall have the right to own, establish, and operate economic enterprises, subject to the duty of the State to promote distributive justice and to intervene when the common good so demands. (Article XII)

Pascual says that in any productive economy, the first factor is labor. [PASCUAL, LABOR AND TENANCY RELATIONS LAW 2 (1975 ed.).] I agree with him. For in any enterprise, it is labor on which management depends to run its business, to till its land, and to make its money. Yet, labor has been the doormat of the economy when it should be its hub. And now, we will make them fall in line along with creditors of management in collecting what it (labor) already owns--its just wages. I do not think that this is in accord with established State policies.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.