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14 May 2007

Hon Lau Chin-shek
Chairman
Panel on Manpower
Legislative Council
Legislative Council Building
Central

Dear Mr Lau,

Statutory minimum wage for cleaning workers and security guards

Thank you for inviting the Employers' Federation of Hong Kong to participate in the Panel Meeting to be held on 17 May 2007 to express our views on the above.

The Federation is committed to the concept of “caring employer” and is keen to promote a harmonious and productive employment environment beneficial to both employers and employees. We are also fully aware of the social disparity resulting from the fact, among other things, that a group of disadvantaged individuals are losing their competitiveness for better jobs and higher wages because their skills are insufficient or are no longer matched with the requirements of employers. However, the Federation is of the strong view that a statutory minimum wage will not help to solve the issue but will probably further jeopardise the employment opportunities of the disadvantaged groups.

The primary determinant of poverty is failure to work rather than insufficient wages from working. The key to reducing poverty is putting individuals in jobs, and keeping them in those jobs until their income rises with the higher productivity that comes with on-the-job training and work experience. This is particularly crucial when competitiveness and productivity are keys to survival in the global arena. Hong Kong is moving towards a knowledge-based economy and manpower quality is the cornerstone for our future. Imposing minimum wages is indirectly taking employment opportunities away from disadvantaged groups. The introduction of minimum wages lowers training among these prospective employees, reduces the accumulation of labour market skills and experience by deterring employment of young, unskilled individuals. The Employers' Federation fully recognises the social responsibility of employers and it is on this ground that we hold strong opposition against the implementation of mandatory minimum wages, either across the board or in specific job positions. We believe that disadvantaged groups should be provided with opportunities to enhance their employability and should not be excluded from the labour market.

The establishment of minimum wages requires employers to pay employees not less than a pre-set amount. Such rigidity works against the natural principle of free market forces whereby the wage for an individual worker is based on the worker's qualifications, abilities, as well as the demand and supply situation in the market. Minimum wage will become a floor for upward negotiation in the regulated trades and thus takes away the employers' right to determine his own salary levels. To comply with the new requirement, employers might consider reducing non-wage fringe benefits to rationalise operating cost or simply relocating their operations elsewhere. Either way, employees will be the most affected.

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Indeed, our labour market is too diverse and elastic to set a right level of minimum wages for different job categories in different industries. Once minimum wage has been set, wage comparisons would be made between trades and job positions regardless of the performance of the organisation and individual. While various economies are exploring ways of enhancing flexibility in business operations, it is unwise for Hong Kong to move in the opposite direction.

Hong Kong's history proves the success of the long-established government policy of free trade and non-intervention. When globalisation becomes inevitable and we are faced with escalating competition and economic restructuring, it is more important than ever to maintain Hong Kong's competitive edge. Any inappropriate interference through legislation will only deter foreign investment and hamper the development of human capital in Hong Kong. In particular, instead of building up a better community, minimum wages discourage job creation and contribute to growing unemployment, thus increasing public expenditure to alleviate the effects of unemployment.

Needless to say, over 98% of Hong Kong employers are small employers who are operating at a very low profit margin. Imposing a minimum wage could force these businesses to close down or to reduce the number of employees. In fact, the number of insolvent companies has increased tenfold in the past ten years and most if not all are small companies.

While we have struggled for the past few years to keep our costs competitive, regulating our wages with minimum wages which seldom move downward as experienced by other countries will once again push our average wage upward. To maintain Hong Kong's competitiveness so as to foster economic development and thus to create more jobs, the Employers' Federation firmly objects to any introduction of mandatory minimum wages in Hong Kong.

Yours sincerely,



Louis Pong
CEO