
INFORMATION NOTE

Supplementary information on minimum wage system in selected places

1. Background

1.1 The Panel on Manpower, at its meeting on 20 March 2008, requested the Research and Library Services Division (RLSD) to provide the following additional information in relation to RLSD's research report entitled "Minimum wage system in selected places"¹:

- (a) minimum wage rate relative to the average wage at the time when the respective minimum wage system was introduced in the places studied², and the minimum wage rate then compared with the current rate;
- (b) employment situation of the places studied pursuant to and right after the implementation of the minimum wage system;
- (c) whether the average wage, median wage or both are used in the minimum wage system of the places studied;
- (d) median wage in the places studied;
- (e) average wage in Hong Kong;
- (f) comparison of the earnings dispersion in the places studied with Hong Kong;

¹ Legislative Council Secretariat (2008).

² The places covered by the research are: Australia, France, Guangdong, Shenzhen, Japan, South Korea, Taiwan, the United Kingdom (UK), the United States (US) and Singapore. Among them, Singapore does not have a minimum wage system.

- (g) standard working hours of the places studied; and
- (h) recent empirical studies evaluating the impact of the minimum wage system on the economy.

Minimum wage rate relative to the average wage at the time when the respective minimum wage system was introduced in the places studied and the minimum wage rate then compared with the current rate

1.2 RLSA has obtained the ratio of the minimum wage rate to the average wage at the time when the minimum wage system was introduced for the following selected places: France (67% in 1950), Guangdong (36% in 1994), Shenzhen (36% in 1994), South Korea (26% in 1988), Taiwan (51% in 1984) and the UK (41% in 1999) (see Table 1).

1.3 When comparing the ratio then with the current ratio, France, Guangdong, Shenzhen, Taiwan and the UK had a lower figure for the current period, indicating that the relative value of the minimum wage rate had decreased against the average wage during the respective period. South Korea was the only place in this study which recorded a higher ratio in recent years (from 26% in 1988 to 28% in 2007).

Table 1 – Minimum wage rate relative to the average wage

	Australia	France	Guangdong	Shenzhen	Japan	South Korea	Taiwan	The United Kingdom	The United States
Minimum wage rate relative to the average wage at the time when the minimum wage system was introduced	Not available (1907).	Minimum wage relative to the average wage: 67% (1950).	Minimum wage relative to the average wage: about 36% (1994).	Minimum wage relative to the average wage: about 36% (1994).	Not available (1959).	Minimum wage relative to the average wage: 26% (1988).	Minimum wage relative to the average wage of manufacturing workers: 51% (1984).	Minimum wage relative to the average wage: 41% (1999).	Not available (1938).
Current level of the minimum wage rate relative to the average wage	Minimum wage relative to the average wage of manufacturing workers: 48% (2005).	Minimum wage relative to the average wage: 47% (2005).	Minimum wage relative to the average wage: about 30% (2007).	Minimum wage relative to the average wage: about 30% (2007).	Average prefectural minimum wage relative to the average wage of manufacturing workers: 32% (2007).	Minimum wage relative to the average wage: 28% (2007).	Minimum wage relative to the average wage of manufacturing workers: 42% (2007).	Minimum wage relative to the average wage: 35% (2005).	Minimum wage relative to the average wage: about 31% (2006).

Sources: Legislative Council Secretariat (2008), Schulten, T. et al. (2006), 韓兆洲, Shenzhen Statistics (2006), Joung, K.E. (2007), Council of Labour Affairs of Taiwan (2002) and Low Pay Commission (2008).

Employment situation of the places studied pursuant to and right after the implementation of the minimum wage system

1.4 Among the places studied, Guangdong, South Korea and Taiwan had a higher unemployment rate³ pursuant to the implementation of the minimum wage system (see Table 2). On the other hand, Japan and the UK had a lower unemployment rate right after the minimum wage system was in place.

³ In addition to minimum wage, many factors such as the global economic environment, inflation rate and labour productivity may affect the unemployment rate.

Table 2 – Employment situation of the places studied pursuant to and right after the implementation of the minimum wage system

	Australia	France	Guangdong	Shenzhen	Japan	South Korea	Taiwan	The United Kingdom	The United States ⁽¹⁾
Unemployment rate in the year of the implementation of the minimum wage system	Not available (1907).	Not available (1950).	2.4% (1994).	Not available (1994).	2.2% (1959).	2.5% (1988).	2.5% (1984).	6.0% (1999).	19.1% (1938).
Unemployment rate in the year pursuant to the implementation of the minimum wage system	Not available (1908).	Not available (1951).	2.6% (1995).	Not available (1995).	1.6% (1960).	2.6% (1989).	2.9% (1985).	5.4% (2000).	17.2% (1939).

Note: (1) At the time, the US was in the Great Depression. Hence, the unemployment rate figures were high in both years.

Sources: Legislative Council Secretariat (2008), 韓兆洲, Statistics Bureau of Japan (2008), Ministry of Labour of South Korea (2005), Council of Labour Affairs of Taiwan (2002), National Statistics Online (2008) and US Department of Commerce (1975).

Whether the average wage, median wage or both are used in the minimum wage system of the places studied

1.5 Among the places studied, Australia, France, Japan, the UK and the US use both the average wage⁴ and median wage in their minimum wage system. On the other hand, Guangdong, Shenzhen, South Korea and Taiwan only use the average wage in their minimum wage system.

⁴ See Table 1 for the current level of the minimum wage rate relative to the average wage.

1.6 The Low Pay Commission (LPC) of the UK compiled the ratio of the minimum wage rate to the full-time median earnings for Australia, France, Japan, the UK and the US in mid-2006. Among them, France had the highest ratio of 61.4% while the US had the lowest ratio of 30.7% (see Table 3).

Table 3 – Ratio of the minimum wage rate to the full-time median earnings in mid-2006

	Australia ⁽¹⁾	France	Guangdong	Shenzhen	Japan	South Korea	Taiwan	The United Kingdom	The United States
Ratio of the minimum wage rate to the full-time median earnings	53.8% (LFS) 51.9% (ES).	61.4%.	Not available.	Not available.	33.3%.	Not available.	Not available.	45.0%.	30.7%.

Note: (1) Two estimates of the median earnings are available based on the Labour Force Survey (LFS) and the Enterprise Survey (ES).

Source: Low Pay Commission (2008).

Median wage in the places studied

1.7 Among the places studied, RLSD has been able to obtain the median wage figures in Australia and the US only. In 2007, the weekly median wage in Australia and the US was AUS\$785⁵ (HK\$5,142) and US\$695⁶ (HK\$5,422) respectively. As the definitions of "median wage" adopted by the two places are slightly different, the figures are not strictly comparable.⁷

⁵ The average exchange rate in 2007 was AUS\$1 = HK\$6.55.

⁶ The average exchange rate in 2007 was US\$1 = HK\$7.801.

⁷ The Australian weekly median wage refers to the "median wage per week" while the US weekly median wage refers to the median weekly earnings of full-time salary workers.

Average wage in Hong Kong

1.8 The Census and Statistics Department (C&SD) does not compile statistics on a single average wage rate covering the employed population in Hong Kong. Instead, C&SD has compiled the average monthly salary for selected occupations⁸ under 46 selected industries⁹ through the Labour Earnings Survey. In December 2007, such figure was HK\$11,300.

1.9 In addition, C&SD has compiled the average monthly salaries¹⁰ by industry by occupation. In view of the fact that the Government is considering the introduction of a statutory minimum wage for security guards and cleaners¹¹, their average monthly salaries for December 2007 are provided in Table 4.

⁸ The two broad occupation groups are: (a) craftsmen and operatives; and (b) supervisory, technical, clerical and miscellaneous non-production workers.

⁹ Major industry sectors include: (a) manufacturing; (b) wholesale, retail and import/export trades, restaurants and hotels; (c) transport services; (d) financing, insurance, real estate and business services; and (e) personal services.

¹⁰ The wage rate includes basic wages and other regular and guaranteed allowances and bonuses.

¹¹ Under the Wage Protection Movement, security guards refer to "security guards" under "security and detective services" and cleaners refer to "cleaners" under "sanitary and similar services".

Table 4 – Average monthly salaries of security guards and cleaners for December 2007

Industry/occupation	Average monthly salaries (HK\$)
Security and detective services	
Security guards	7,115
within which:	
those employed under 2-shift system (12 hours per shift)	6,948
those employed under 3-shift system (8 hours per shift)	6,643
Sanitary and similar services	
Cleaners (general)	5,241
Cleaners (lavatory)	5,114

Source: Census and Statistics Department (2007).

Earnings dispersion of the places studied and Hong Kong

1.10 The 2005 earnings dispersion¹² figures for Australia, France, Japan, South Korea, the UK and the US ranged from 3.10 to 4.86 (see Table 5). Hong Kong's earnings dispersion figure for 2005 was 7.50, indicating that Hong Kong had a more unequal earnings distribution compared with the places studied.

¹² Earnings dispersion is measured by the ratio of 9th to 1st deciles of earnings. While a low earnings dispersion figure indicates a more equal earnings distribution, a high earnings dispersion figure shows a more unequal earnings distribution.

Table 5 – Earnings⁽¹⁾ dispersion of the places studied and Hong Kong in 2005

	Australia	France	Guangdong	Shenzhen	Japan	South Korea	Taiwan	The United Kingdom	The United States	Singapore	Hong Kong
Ratio of 9 th to 1 st deciles of earnings	3.12	3.10	Not available	Not available	3.12	4.51	Not available	3.51	4.86	Not available	7.50

Note: (1) Earnings used in the calculations refer to the gross earnings of full-time wage and salary workers.

Sources: Organisation for Economic Co-operation and Development (2007) and information provided by Census and Statistics Department.

Standard working hours of the places studied

1.11 In Guangdong, Shenzhen, Japan and the UK, the standard working hours are eight hours per day and 40 hours per week. France has the shortest standard working hours, which is 35 hours per week.

Table 6 – Standard working hours of the places studied

	Australia	France	Guangdong	Shenzhen	Japan	South Korea	Taiwan	The United Kingdom	The United States	Singapore
Standard working hours	38 hours per week.	35 hours per week.	Eight hours per day and 40 hours per week.	Eight hours per day and 40 hours per week.	Eight hours per day and 40 hours per week.	Eight hours per day and 44 hours per week.	Eight hours a day and 84 hours every two weeks.	Eight hours per day and 40 hours per week.	40 hours per week.	Eight hours per day and 44 hours per week.

Sources: Legislative Council Secretariat (2008), Australian Workplace Authority (2007a), Department for Business Enterprise and Regulatory Reform (2008a), US Department of Commerce (1975) and Ministry of Manpower of Singapore (2007).

Recent empirical studies evaluating the impact of the minimum wage system on the economy

1.12 RLSD has found that both LPC and Dr Sara Lemos¹³ of the University of Leicester of the UK have recently published empirical studies evaluating the impact of the minimum wage system on the economy.

Empirical studies published by the Low Pay Commission

1.13 LPC commissioned the Incomes Data Services¹⁴ (IDS) and Professor Jonathan Wadsworth¹⁵ separately to conduct empirical studies evaluating the impact of the minimum wage system on the economy. The findings of the two studies are summarized below.

Empirical research entitled "Monitoring the impact of the national minimum wage" conducted by the Incomes Data Services¹⁶

1.13.1 The objectives of this study were to examine:

- (a) impact of the 2006 increase in the minimum wage rate on the economy; and
- (b) employers' responses to the increase in the minimum wage rate.

1.13.2 To gather the required information, IDS contacted about 1 000 companies by telephone and postal survey. In particular, IDS concentrated on the low-paying sectors, such as hospitality, food and beverages, hotels and restaurants, care homes and childcare.

¹³ She is a lecturer at the Economics Department of the University of Leicester.

¹⁴ IDS is an independent research organization providing information and analysis on pay and benefits, human resources policy, employment law and labour standards.

¹⁵ He is a senior research fellow at the Centre for Economic Performance of the London School of Economics.

¹⁶ Income Data Services Ltd. (2007a) Monitoring the impact of the national minimum wage. Research Report for the *Low Pay Commission*.

1.13.3 The key findings of the study included:

- (a) minimum wage continued to have a substantial impact on the lowest rates of pay across the low-paying sectors, particularly food and beverages; and
- (b) increase in the 2006 minimum wage rate had not adversely affected the employment level and the number of working hours, and reduced earnings dispersion.

Empirical research entitled "Did the United Kingdom minimum wage affect prices?" published by Dr Jonathan Wadsworth¹⁷

1.13.4 Dr Jonathan Wadsworth used the Labour Force Survey and the Annual Survey of Hours and Earnings to evaluate the effects of minimum wage on the general level of prices. The study found that it was hard to detect much evidence of a significant change in the general level of prices in the month in which minimum wage was raised. However, the level of prices in the low-paying sectors which employed a large number of minimum-wage workers appeared to have risen relatively faster than the general level of prices.

Empirical research entitled "A survey of the effects of the minimum wage on prices" published by Dr Sara Lemos

1.14 Dr Sara Lemos reviewed and compared about 30 studies that estimated the effect of minimum wage on the general level of prices in the US. According to Dr Sara Lemos, despite the adoption of different methodologies, data periods and data sources, most studies found that a 10% minimum wage increase in the US raised the general level of prices by no more than 0.4% and food prices by no more than 4%. In this connection, she concluded that minimum wage did not seriously affect the general level of prices in the US.

¹⁷ Wadsworth, J. (2008) Did the UK minimum wage affect prices? Research Report for the *Low Pay Commission*. Centre for Economic Performance, London School of Economics.

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