

For discussion
on 4 November 2004

LegCo Panel on Manpower

The Proposal for a Minimum Wage in Hong Kong

Purpose

There have been calls recently both within the Legislative Council (LegCo) and in the community for legislation to provide for a minimum wage in Hong Kong. The matter was the subject of a motion debate in LegCo at its sitting on 13 October 2004. This paper sets out the Administration's initial position on the issue and the way forward.

Pros and Cons of Minimum Wage

2. The issue of minimum wage has been debated in LegCo on various occasions in the past few years but no consensus could be reached. Views are divided not only within LegCo but also in the wider community and among academics.

3. In essence, proponents of the proposal maintain that a minimum wage can provide adequate income protection for elementary workers, alleviate the problem of poverty, enable workers to earn a dignified living by their labour and narrow the gap between the rich and the poor in Hong Kong. There is a groundswell of opinion that a minimum wage would reduce the number of people resorting to the Comprehensive Social Security Assistance Scheme and provide an incentive for the able-bodied unemployed to re-enter the labour market. It has also been contended that as some 80 countries have adopted statutory minimum wages, Hong Kong would not be entering uncharted waters by going down this route. The argument has also been advanced that since we already have in place a minimum allowable wage for foreign domestic helpers, there is no reason why similar arrangement cannot be made for local unskilled workers.

4. On the other hand, there are arguments that a minimum wage policy would stifle the economy and have an adverse effect on the operational flexibility of corporations and their ability to respond, especially in times of economic downturn, thereby hampering economic development and the labour market in the long run. Experience overseas suggests that a minimum wage has the opposite effect of aggravating the problem of unemployment for

non-skilled workers at the grassroots level because employers tend to recruit staff with higher productivity and capability. Some employers may refuse to pay wages higher than the statutory minimum wage or may even lower the existing wages to match the statutory minimum level. A minimum wage could thus end up as the standard wage or maximum wage for some employees.

5. It has also been argued that a minimum wage would increase labour costs of some industries. This would, in turn, weaken their competitiveness, prompt them to relocate or outsource some production processes offshore, and lead to redundancy and fewer job opportunities. Those production processes that are labour intensive and less value-added will bear the brunt, and unfortunately workers with lower skills or educational levels, or the cohort which the minimum wage intends to protect, will suffer most. Moreover, in case the minimum wage is higher than the current wage level, it will lead to price increases and inflation, and consequently fail to raise the standard of living of the employees.

6. Some academics are of the view that a statutory minimum wage may distort the self-adjustment mechanism of the labour market, as employers can no longer determine the wages of workers on the basis of the productivity, capability and performance of workers as well as the business condition of companies or external economic factors. It may also undermine the incentive of the working population to improve and upgrade the quality of their work. This could be detrimental to the overall competitiveness of the workforce. The point is also made that many western economies are moving towards achieving greater flexibility and liberalization in the labour market to increase economic competitiveness rather than going for more market rigidities.

Complex Issue

7. Hong Kong is well known for its flexibility and manpower resource is our most valuable asset. To retain our competitiveness, we must strike a balance between maintaining Hong Kong's strengths in this respect and safeguarding the rights and benefits of our workforce.

8. The issue of minimum wage is complicated and carries a far-reaching impact on the future socio-economic development of Hong Kong. It involves a plethora of questions which need to be answered. For example, what is considered to be a reasonable minimum wage? Should it be across the board or targeted at individual trades or sectors? Is legislation absolutely essential? Should we launch pilot schemes in the first place and proceed in a gradual and flexible manner? What is the platform and mechanism for setting and adjusting the minimum wage? How to monitor that mechanism? Will a minimum wage result in a surge in labour costs to the level beyond the affordability of employers so that our business environment and economy will

be seriously eroded? Will a minimum wage really benefit elementary workers who need such protection most or will they be priced out of the labour market as employers would prefer people of better skills and knowledge when the wage has to be at or above a certain level? In other words, will the policy be really effective and will not do more harm than good? When Hong Kong is moving towards a knowledge-based society and when labour-intensive jobs or jobs requiring just basic skills are fast diminishing, will a statutory minimum wage provide greater protection to workers in the lower strata or will we be taking away what remains of the precious job opportunities from them? These are all fundamental questions that need to be tackled.

Way Forward

9. As stated by the Secretary for Economic Development and Labour in his response at the motion debate in LegCo on 13 October 2004, the Administration keeps an entirely open mind on the issue. We will explore in depth the feasibility and desirability of introducing a statutory minimum wage in Hong Kong. In doing so, we will assess fully the socio-economic implications of the proposal, both in the short and long term, as well as its merits and demerits. We will also analyse, and draw on, the experience of overseas countries with minimum wage policies. To this end, the Labour Department has already put in hand the necessary research, in conjunction with the Government Economist and Census and Statistics Department. In addition, we will listen to the views of the community as well as those of the employer and employee sectors.

10. As with any labour policy initiatives, in examining the issue of minimum wage, the Administration will be guided by its well-established policy of progressively improving employee's rights and benefits in a way that is commensurate with the pace of Hong Kong's overall socio-economic development and of striking a balance between the interests of employers and employees. It is important to note that consensus must be secured amongst employers, employees and the Government before the proposal can be taken forward.

11. As a first step, the Administration will put the issue to the Labour Advisory Board (LAB) for deliberation. The LAB is a high-level tripartite consultation forum on labour matters. It comprises employer and employee members in equal number, with the Permanent Secretary for Economic Development and Labour (Labour) as its ex-officio Chairman. It is best placed to thrash out the issue. The LAB will meet before the end of this year to initiate the discussion on the issue. In the light of the outcome of LAB's deliberation, we will take the matter to the Economic and Employment Council led by the Financial Secretary for further discussion.

12. Members are invited to note the content of this paper.

Economic Development and Labour Bureau
Labour Department
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