

For information on  
19 June 2008

## **Legislative Council Panel on Manpower**

### **Preparatory Work for Introducing a Statutory Minimum Wage for Cleaning Workers and Security Guards if the Wage Protection Movement Fails to Yield Satisfactory Results**

#### **Setting of the Wage Level of the Statutory Minimum Wage**

#### **Purpose**

To follow up previous discussion at the LegCo Manpower Panel meetings, we need to take forward preparatory work for introducing a statutory minimum wage (SMW) for cleaning workers and security guards should the Wage Protection Movement (WPM) eventually fail to yield satisfactory results. This paper informs Members of our initial thinking on how the SMW wage level should best be set.

#### **Background**

2. With a view to protecting the wage levels of non-skilled workers engaged by government service contractors, the Administration introduced the mandatory wage arrangement for Government out-sourced contracts in May 2004. Building on the positive response of such mandatory wage arrangement, the Administration launched in October 2006 the WPM to protect, through voluntary and non-legislative means, the wage levels of cleaning workers and security guards, who were generally considered low-skilled workers with the least bargaining power. To cultivate a paradigm shift by setting a model of good employer for the community to follow, both the mandatory wage arrangement for Government out-sourced contracts and the WPM set the required wage levels by reference to the market average wage rates of the covered occupations as stipulated in the Quarterly Report of Wage and Payroll Statistics (the Quarterly Report) published by the Census and Statistics Department.

## **SMW and its Impact**

3. Should an SMW be introduced, its main purpose should be to forestall the payment of excessively low wages, thereby protecting the vulnerable groups prone to exploitation.

4. It is noteworthy that the higher the SMW wage level, the greater would be the risk of displacement of the more vulnerable workers. In addition, there would also be considerable impact on the operating costs of businesses, especially small and medium-sized enterprises (SMEs) as they usually employ a larger proportion of low-paid workers than large enterprises. Over 98% of companies in Hong Kong are SMEs.

5. Overall speaking, an appropriate and ideal SMW wage level in Hong Kong should be one that is effective in providing a wage floor to forestall the payment of excessively low wages on the one hand, and does not adversely affect the employment opportunities of the less competitive workers and the affordability of the employers concerned on the other. The use of market average under the WPM is understandable as it involves a paradigm shift by setting a model of good employer for the community to follow. For SMW, it involves the barest acceptable standard and departure from which would entail legal sanction. Hence, it is for serious consideration whether the concept of market average is appropriate.

## **Single Wage Rate vis-à-vis Individual Wage Rates for Different Occupations**

6. Based on the consensus reached at the Labour Advisory Board (LAB) that the wage rate of the SMW, should it be introduced, would be set on an *hourly* basis, the Administration has further looked into the issue of whether there should be a single SMW wage rate or otherwise for the two covered occupations. Under the WPM, five different reference hourly wage rates<sup>1</sup> are derived from the Quarterly Report for application to the different “categories” of cleaning workers and security guards according to the job content and working hours. The practice of adopting individual wage rates for different jobs or occupations has the merit of reflecting specifically the market wage rates of respective jobs or occupations.

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<sup>1</sup> The five reference hourly wage rates adopted under the WPM are cleaner (general), cleaner (lavatory), guard (overall average), guard (3-shift) and guard (2-shift).

7. However, experience under the WPM suggests that multiple wage rates would be rather confusing to employers and employees alike. The confusion would be further compounded under an SMW legislation. In reality, the precise work arrangements can be diverse and will not necessarily fall neatly into a few clearly defined and easily distinguishable categories. Such confusion would not be conducive to effective compliance and enforcement, not to mention the implications for subsequent reviews of the SMW wage levels. Furthermore, multi-tasking, which is not uncommon among the lower-skilled cleaning workers and security guards, would render the adoption of multiple wage rates for different occupations even more complicated for the purpose of SMW. Prima facie, there seems to be clear merit in adopting a single SMW wage rate.

### **Criteria in Setting the Wage Level of the SMW**

8. Whether an SMW can achieve the intended purpose hinges very much on whether the SMW wage rate is appropriate. In this connection, we may draw reference from a common overseas experience of setting the rate with reference to a basket of social, economic and employment considerations.<sup>2</sup>

9. While the indicators used by other countries are, prima facie, also relevant to Hong Kong, we have our unique concerns not commonly shared by others. We are one of the most externally-oriented economies in the world with total trade in goods and services being more than four times that of our GDP, implying our extreme sensitivity to vicissitudes in the global market. As a result, our economy relies heavily on its internal price and cost structures (with wages and unemployment being significant components) to adjust to economic shocks and restore competitiveness.

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<sup>2</sup> For illustrative purpose, the criteria adopted in the US, Australia and UK in determining the SMW wage level are as follows –

<b>The United States</b>	<b>Australia</b>	<b>The United Kingdom</b>
<ul style="list-style-type: none"><li>- Cost of living</li><li>- Productivity and wages of comparable workers</li><li>- Ability of employers to absorb wage increases</li></ul>	<ul style="list-style-type: none"><li>- Cost of living</li><li>- Consumer price index</li><li>- Economic performance</li><li>- Wages of comparable workers</li></ul>	<ul style="list-style-type: none"><li>- Economic conditions</li><li>- Pay differentials</li><li>- Business costs</li><li>- Competitiveness of economy</li><li>- Inflation rate</li><li>- Employment level</li></ul>

10. For instance, the employment and income of lower-skilled workers had been affected in different ways over the past ten years during which Hong Kong had gone through different stages of economic cycle. In the aftermath of previous economic downturns, such as the Asian financial turmoil in 1997 and the outbreak of the Severe Acute Respiratory Syndrome in 2003, the unemployment rate of lower-skilled workers surged because these relatively less competitive workers were more prone to job loss as nominal wages did not fall fast enough to clear the market. On the other hand, during the economic recovery in 1999-2000 and from mid-2003 onwards, faster job creation not only pulled down the unemployment rate but also lifted wage gains of lower-skilled workers.

11. Against this backdrop, it would be more appropriate to determine the level of the SMW by reference to a basket of social, economic and employment factors that could reflect the holistic needs of workers in particular and the Hong Kong economy at large. The basic components of the relevant factors may include, inter alia, cost of living, general economic outlook, economic competitiveness, labour productivity, impact on businesses in respect of operating costs, ability of employers to absorb the wage increases, employment situation, wage levels and trends of lower-end workers, etc.

### **Way Forward**

12. The LAB has noted the issues on the setting of the wage level of the SMW. The LAB will continue its discussion in this regard in the light of overseas experience as well as the social, economic and employment situations in the local context.

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