

**Provisional Minimum Wage Commission:
Preliminary Views on a Basket of Indicators,
Other Relevant Considerations and Impact Assessment**

Introduction

The terms of reference of the Provisional Minimum Wage Commission (PMWC) is mainly to advise the Chief Executive on the initial statutory minimum wage (SMW) rate on the basis of an evidence-based approach with a view to ensuring a sensible balance between forestalling excessively low wages and minimising the loss of low-paid jobs, while sustaining Hong Kong's economic growth and competitiveness.

The PMWC has received written submissions and oral presentation of views from various stakeholders and interested parties.

The preliminary view of the PMWC is that in discharging its duties under the terms of reference and in conformity with the spirit and intent of the SMW policy, the Commission should –

- (1) make references to:
 - a) a number (basket) of indicators that reflect the areas of concerns raised; and
 - b) other considerations or factors that are relevant to the SMW policy.
- (2) assess the potential impact of different rates of SMW based on data available so as to enable the PMWC to conduct its analysis and deliberation in an informed and evidence-based manner.

Elaboration of the above preliminary views of the Commission is set out below. It cannot be over-emphasised that the views are neither conclusive nor exhaustive. They are set out to enhance transparency on the progress of work of the PMWC and to facilitate community discourse on the optimal initial SMW rate. In this connection, the PMWC looks forward to receiving further comments or submissions from interested organisations and individuals.

Basket of Indicators

PMWC's preliminary view is that the following indicators may be taken into account:

(1) General Economic Conditions

- Including the nominal and real Gross Domestic Product (GDP) growth rates, as well as short-term (2010) and medium-term (2011 to 2014) GDP and inflation forecasts.

(2) Labour Market Conditions

- Labour demand and supply — including employment and vacancies, labour force, labour force participation rate, unemployment and underemployment.
- Wage level and distribution — covering major sectors, particularly the low paying sectors, and making analyses on socio-economic characteristics of the employees.
- Wage differentials — ratios between the lower and higher levels of the hourly wage distribution.
- Employment characteristics — including employment status (employees and self-employed), employment nature (full-time and part-time employment) and contractual status (permanent, fixed-term contract and casual basis).

(3) Competitiveness

- Productivity growth — real labour productivity growth in Hong Kong relative to selected economies, and labour productivity growth in Hong Kong's major sectors.
- Labour costs — nominal unit labour costs of Hong Kong and selected economies.
- Operating characteristics of enterprises — including the numbers of enterprises and employees in various sectors, the ratios of remuneration of employees to total operating costs and business receipts respectively, and earnings before tax and depreciation ratios (abbreviated as profit ratios)⁽¹⁾, etc.

(1) Earnings before tax and depreciation ratios here refer to ratio of profit before deducting tax, depreciation, gain/loss on disposal of property, machinery and equipment, bad debts/write-off, amortization and provisions, to business receipts. This profit is similar to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) in business accounting.

- Entrepreneurship, business sentiment and solvency — including the numbers of creation and deletion of business registration as well as the numbers of bankruptcies and compulsory winding-up of individuals or partners.
- Relative economic freedom and competitiveness of Hong Kong — Hong Kong's rankings under the indices of economic freedom and competitiveness compiled by various international organizations, as well as sub-indices on the regulation and flexibility of labour market.

(4) Standard of Living

- Employment earnings — the nominal and real rates of change in average monthly employment earnings from main employment for full-time workers.
- Consumer price inflation — rate of change in Consumer Price Index (A).

Other Relevant Considerations

The other relevant considerations listed below are neither exhaustive nor final. The value- and interest-laden nature of SMW and as a corollary, the inevitable divergence of views would naturally make any discussion on the SMW rate very animated and interactive. Therefore, the considerations that need to be factored into account may need to be refined in tandem.

The considerations set out below, nonetheless, broadly reflect the views so far expressed by the stakeholders and interested parties that have written to or met with the PMWC.

(1) Social harmony

(2) Encouraging employment

(3) Enhancing quality of life

(4) Raising purchasing power

(5) Other possible chain effects

- Downsizing and organisational changes — streamlining the operation structure, dismissing employees with lower productivity, reducing working hours, introducing automation to substitute for labour, reducing the number of hierarchical levels in the firm, etc.

- Changes in employment terms and relocation — hiring fewer full-time and permanent workers but more part-time and casual staff, relocating operations to areas with lower costs, etc.
- Changes in pay strategy — reducing the amount and number of non-wage benefits (year-end payment, discretionary bonuses, free meals, free accommodation and medical benefits, etc.) in order to raise basic wages to the SMW level, raising wages at the middle to upper segments in order to preserve reasonable wage differentials in the hierarchy, etc.
- Changes in training strategy — reducing training for staff in order to reduce costs.
- Changes in the provision and demand of goods and services — passing part or all of the wage increases to consumers through higher prices or downward adjustment in output or quality, switching to goods or services of lower prices or quality by consumers, etc.
- Wage-price spiral — depending on the level of SMW, the cycle of inflation inducing the rise of labour costs, which in turn further pushes up inflation, may occur.

Impact Assessment

From the above basket of indicators, we will simulate the possible impact of different SMW levels on the labour market, firms' profits, and prices of goods and services.

Links to reference information related to the data of the Basket of Indicators

(1) General Economic Conditions

- Including the nominal and real Gross Domestic Product (GDP) growth rates
http://www.censtatd.gov.hk/hong_kong_statistics/statistics_by_subject/index.jsp?subjectID=3&charsetID=2&displayMode=T
- Short-term (2010) and medium-term (2011 to 2014) GDP and inflation forecasts.
http://www.budget.gov.hk/2010/eng/pdf/supple_appen/appendix_a.pdf
(please refer to page 6 for relevant information)

(2) Labour Market Conditions

- Labour demand and supply — including employment and vacancies, labour force, labour force participation rate, unemployment and underemployment.
http://www.censtatd.gov.hk/hong_kong_statistics/statistics_by_subject/index.jsp?subjectID=2&charsetID=2&displayMode=T
- Wage level and distribution — covering major sectors, particularly the low paying sectors, and making analyses on socio-economic characteristics of the employees.
http://www.censtatd.gov.hk/products_and_services/products/publications/index.jsp
- Wage differentials — ratios between the lower and higher levels of the hourly wage distribution.
http://www.censtatd.gov.hk/products_and_services/products/publications/index.jsp
- Employment characteristics — including employment status (employees and self-employed), employment nature (full-time and part-time employment) and contractual status (permanent, fixed-term contract and casual basis).
http://www.censtatd.gov.hk/products_and_services/products/publications/statistical_report/labour/index_cd_B1050001_dt_latest.jsp
http://www.censtatd.gov.hk/products_and_services/products/publications/index.jsp

(3) Competitiveness

- Productivity growth — real labour productivity growth in Hong Kong relative to selected economies, and labour productivity growth in Hong Kong's major sectors.
http://www.statistics.gov.hk/publication/feature_article/B70911FB2009XXX

[XB0100.pdf](#)

- Labour costs — nominal unit labour costs of Hong Kong and selected economies.
- Operating characteristics of enterprises — including the numbers of enterprises and employees in various sectors, the ratios of remuneration of employees to total operating costs and business receipts respectively and earnings before tax and depreciation ratios (abbreviated as profit ratios)⁽¹⁾, etc.
http://www.censtatd.gov.hk/products_and_services/products/publications/statistical_report/commerce_and_industry/index.jsp
(please refer to the reports of annual survey of various industries)
- Entrepreneurship, business sentiment and solvency — including the numbers of creation and deletion of business registration, as well as the numbers of bankruptcies and compulsory winding-up of individuals or partners.
<http://www.ird.gov.hk/dar/2008-09/table/eng/schedules.pdf>
(please refer to Schedule 8 for relevant information)
<http://www.oro.gov.hk/cgi-bin/oro/stat.cgi>
- Relative economic freedom and competitiveness of Hong Kong — Hong Kong's rankings under the indices of economic freedom and competitiveness compiled by various international organizations, as well as sub-indices on the regulation and flexibility of labour market.
<http://www.heritage.org/index/>
<http://www.freetheworld.com/release.html>
<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>
http://www.imd.ch/research/publications/wcy/wcy_online.cfm
<http://www.doingbusiness.org/features/Highlights2010.aspx>

(4) Standard of Living

- Employment earnings — the nominal and real rates of change in average monthly employment earnings from main employment for full-time workers.
http://www.censtatd.gov.hk/products_and_services/products/publications/statistical_report/labour/index_cd_B1050001_dt_latest.jsp

(1) Earnings before tax and depreciation ratios here refer to ratio of profit before deducting tax, depreciation, gain/loss on disposal of property, machinery and equipment, bad debts/write-off, amortization and provisions, to business receipts. This profit is similar to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) in business accounting.

- Consumer price inflation — rate of change in Consumer Price Index (A).
http://www.censtatd.gov.hk/hong_kong_statistics/statistics_by_subject/index.jsp?subjectID=12&charsetID=1&displayMode=T