

Provisional Minimum Wage Commission:
Summary of views of stakeholders attended meetings

Introduction

The Provisional Minimum Wage Commission (PMWC) is tasked mainly to advise the Chief Executive on the initial statutory minimum wage (SMW) rate through adopting an evidence-based approach, extensive consultations with interested parties as well as prudent, objective and comprehensive analyses and deliberations based on the information and data collected from statistical surveys conducted by the Census and Statistics Department.

From late December 2009 to mid-February 2010, the PMWC consulted 83 groups of stakeholders to gauge their views and concerns on the methodology for setting the initial SMW rate. The stakeholders included major trade unions, major employers' associations, associations of small and medium enterprises (SMEs), associations on the industries likely to be more affected by SMW, trade/professional associations, think tanks/policy research institutes as well as labour policy-concerned groups.

Through direct and frank dialogues with stakeholders, the PMWC collected different views on the methodology for setting the initial SMW rate and the possible impact of SMW to the Hong Kong society and economy in general. A summary of views and concerns commonly shared by stakeholders is set out below. It cannot be over-emphasised that the views summarised are neither exhaustive nor conclusive. 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 views from stakeholders and interested parties with reference to the relevant statistical data.

Summary of views

(1) Methodology on setting the SMW rate

- Labour unions and labour policy-concerned groups generally considered that SMW should not be lower than the level of payment under the Comprehensive Social Security Assistance (CSSA) Scheme in order to enhance work incentives and to ensure that workers could be rewarded for their work with dignity. They opined that SMW should be sufficient to cover family expenses and the level of which should not be lower than \$33 per hour.
- Employers' associations and business representatives were commonly of the view that SMW, as a wage floor, should only guarantee workers a minimum remuneration for

their work but not a living wage to cover family expenses. A prudent and cautious approach to set the initial SMW at a level between 40% and 45% of the median wage¹ was recommended.

- Meanwhile, stakeholder groups, in general, remarked that other factors (including economic and employment data, labour productivity, affordability of enterprises, composition of operating costs, etc.) should also be taken into consideration when setting the SMW rate. At the same time, extensive consultation should be conducted to gauge views of stakeholders with a view to striking a sensible balance between the needs and concerns of different sectors in the society.

(2) Impacts of SMW

Overall economic situation

- Labour unions and labour policy-concerned groups commonly believed that SMW could enhance workers' incentive to work, and thus increase the overall productivity of Hong Kong as a result. SMW could also raise purchasing power of workers and in turn boost domestic consumption and benefit the local economy. Some labour unions opined that there was no hard and fast rule on whether the additional costs would be wholly or partly passed to the prices of products and services at the expense of customers, as it all would depend on the price elasticity and the nature of businesses. In fact, they considered that SMW would not lead to significant increases in labour costs as SMW would affect low-paid workers only. It was anticipated that businesses could offset the additional costs by a mild increase in the prices of products and services and the negative impact on the overall economy would be limited.
- Meanwhile, some stakeholder groups (including employers' associations, think tanks/policy research institutes, SME associations and business representatives) expressed concerns that businesses might choose to lay off workers to offset the additional wage bill. Some retrenched workers might eventually move from self-reliance to welfare, resorting to CSSA for a living and affecting the overall productivity of Hong Kong. Furthermore, should the SMW go beyond the level which the business could afford, enterprises might choose either to relocate the production lines, wholly or partly, from Hong Kong or to cease business altogether, and this would affect the economic development of Hong Kong.

¹ Employers' associations and business representatives had respectively quoted the median monthly employment earnings of employed persons as reported by the Census and Statistics Department in Q2/2008 to Q3/2009, the relevant figure was \$10,500 (including foreign domestic helpers) or \$11,000 (excluding foreign domestic helpers).

Labour market situation

- Labour unions and labour policy-concerned groups considered that SMW would protect low-paid workers from exploitation by maintaining their level of income to cover the living expenses regardless of economic fluctuations. As a result, it would help enhance a harmonious relationship in the workplace.
- Individual labour unions pointed out that as reflected in overseas experience, SMW might inevitably lead to job losses, but in limited degree only. Also, there were no obvious negative impacts on the job market and the business environment. As a matter of fact, employers would deploy various adaptive measures (including downsizing and reduction of staff benefits and working hours) to reduce labour costs in times of economic downturns. There was thus no necessary correlation between SMW and job losses. Whether SMW would cause job losses depended much on the importance of the jobs. Demands for workers in the labour-intensive service industries (including catering, security and sanitary services) should not drop significantly after the introduction of SMW. Some labour policy concerned groups also indicated that the impact of SMW should be supported by evidence and thus should not be exaggerated at the moment. Objective analysis should be conducted after the implementation of SMW.
- On the other hand, some stakeholder groups (including employers' associations, think tanks/policy research institutes, SME associations and business representatives) were much concerned that businesses would deploy various adaptive measures to offset the additional labour costs (including reduction of manpower and working hours, deployment of workers to take up additional tasks, contracting out or relocating wholly or partly the production lines from Hong Kong, substitution of low-skilled and less productive workers by machines, reduction of number of branches or even a cessation of business, etc.), which would inevitably lead to job losses. The employment opportunities of vulnerable groups (including low-skilled, less-educated, elderly, inexperienced and disabled workers) would be at stake. A few SME associations and business representatives also pointed out that if businesses choose to cut the part-time employments to offset the additional labour costs, it will lead to the possible reduction of employment opportunities for female employees who prefer part-time employment that can provide higher flexibility while enabling them to supplement their family income and make contribution to the society without sacrificing their need to take care of their families.
- Employers' associations and business representatives, in general, anticipated that SMW would reduce the wage differential among staff of different ranks, such that businesses would have to revamp the salary structure to maintain a reasonable wage ladder. It was

believed that SMW would have a much greater impact on labour-intensive industries with a relatively small wage differential among staff of different ranks. Business representatives pointed out that some businesses might choose to vary workers' employment conditions and arrangements (e.g. engaging staff on a temporary or self-employed basis so as to reduce payment of staff benefits), reduce the provision of training to staff, withdraw gratuitous and in-kind benefits (e.g. medical benefits and free meals) and so forth to offset the increased labour costs. Going against the principle of "more pay for more work", it would hamper workers' incentive to work and study, and eventually might change the ecosystem of the labour market.

Competitiveness

- Some labour unions said that SMW would lead to an increase in labour costs and thus affect the profits of businesses. However, it would not necessarily affect the competitiveness of Hong Kong directly. To assess Hong Kong's competitiveness, we should consider the overall local circumstances, including the legal system, infrastructure, government's efficiency, quality of life, business environment, training of talents, and so forth.
- Business representatives, however, generally considered that the rise in operating costs would affect profitability, sustainability and development of businesses and in turn the competitiveness of Hong Kong. Some stakeholder groups (including employers' associations, think tanks/policy research institutes, SME associations and business representatives) were also concerned that should the SMW go beyond the level which the business could afford, enterprises might eventually choose either to relocate the production lines, wholly or partly, from Hong Kong or to cease business altogether and this would affect the overall competitiveness of Hong Kong.

Standard of living

- Some labour unions opined that after the implementation of SMW, workers should be able to work flexible or less hours while getting the same or even higher income than before. SMW could raise the purchasing power of workers and in turn help boost their standard of living. In the long run, workers should be more capable of keeping retirement reserves and thus reducing the need for welfare.
- To the contrary, some employers' associations and business representatives remarked that should businesses closely related to people's livelihood (e.g. Hong Kong style tea cafes/fast food cafes chains) choose to pass the additional costs to consumers, it would induce a vicious cycle for an upward wage/price spiral. Though benefitting from wage increase, workers' purchasing power would also be eroded by inflation.

Concerns of different industries and employers of SMEs

- Some business representatives indicated that the commission- or bonus-based remuneration package was widely adopted by various industries (including retail, insurance, real estates, tourism and securities) so as to provide incentives to workers. Should the SMW be set too high at a level, the purpose of motivating staff to enhance performance through gratuitous payment system would be defeated and the quality of service might be compromised as a result.
- Business representatives from the industries of retail, food production, elderly homes and sanitary services said that it was difficult for them to recruit staff as youngsters were reluctant to join the industries due to the long working hours or unpleasant work nature. Given that SMW might also lead to a general rise in the wage level of other trades, they anticipated that the number of youngsters joining the industries concerned would further be on the wane.
- Some labour unions and individual business representatives anticipated that the introduction of full automation with a view to reducing labour cost through the substitution of manpower by machines in the workplace was unlikely. Taking the industries of property management and security as examples, notwithstanding the installation of security surveillance systems (e.g. CCTV system), manned guarding was still widely considered as necessary. Similarly, for the catering industry, frontline staff (e.g. cashiers and waiters/waitresses) could not be replaced by machines also. However, some business representatives were of the view that should the SMW go beyond the level which the business could afford, enterprises might have to deploy various adaptive measures to offset the additional labour costs, such as laying off supervisors at middle level or clerical staff, retaining one security guard on one shift to provide minimal guarding services or replace more guards by CCTV systems.
- Some SME associations remarked that SMEs were currently paying a competitive wage level in the labour market and the number of employees was relatively small. Therefore, impacts of SMW on SMEs should be small when compared with large enterprises. However, with limited financial capacity and the clientele mainly from the grassroots, business turnovers of SMEs tended to be low and hence the prices of their goods and services could not be set at too high a level. Should SMW lead to dramatic increase of labour costs, it would threaten the survival of SMEs as the market would be monopolized by large enterprises eventually, leading to unfair competition.