



Hong Kong General Chamber of Commerce
香港總商會 1861

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26 April 2023

Ms Priscilla Wong, SBS, JP
Chairperson
Minimum Wage Commission
1/F, Harbour Building
38 Pier Road, Central
Hong Kong

Dear Ms Wong,

**First-stage Consultation on Enhancing the Review Mechanism of the
Statutory Minimum Wage
Response by the Hong Kong General Chamber of Commerce (“HKGCC”)**

The HKGCC welcomes the opportunity to give our views on enhancing the review mechanism of the Statutory Minimum Wage (“SMW”), which we recommend be left unaltered for the reasons as given in the following. We have also included comments on the relevance and necessity of a SMW, which the Minimum Wage Commission and the Government should take into account of in its deliberations as part of this review exercise.

Review Cycle

Since the implementation of SMW in 2011, businesses have become acclimatized to the prevailing cycle of an adjustment every two years. We believe the **existing practice of conducting a review every two years should continue** in the interest of preserving certainty regardless of any exogenous factors that may be at play. In addition, a period of two years should help smooth out any short-term economic aberrations that could otherwise distort the decision-making process in setting an appropriate SMW rate.

Mode of Review

A common refrain among critics of SMW involves its failure to keep up with average wages or economy-wide productivity levels, and that the current rate is unable to provide adequate income for full-time workers to enable them to escape from poverty. We would argue that such comparisons are spurious and not appropriate for determining an appropriate level for minimum wage rates. We look at each of these in turn.

- *Productivity*

In the case of productivity performances, these could vary across sectors. Linking a broad-brush productivity number with the prevailing SMW level could lead to the setting of much higher wage floors than are justified by the productivity of workers in certain sectors, resulting in significant localized job losses or other non-wage adjustments. Examples of the latter in offsetting a rate increase include changes to non-wage compensation or work conditions such as the convenience of work schedules, security of work hours, health insurance quality, retirement benefits, payments-in-kind, and workplace conditions. Ultimately, SMW-dependent workers will be worse off as businesses look to recoup some of the increased labor costs.

- *Costs of living*

Minimum wage hike proponents believe SMW is necessary to solve market failure. As such, SMW should be set at the “right” level to fix the failure in real terms so that it tracks the general price level in the economy. That argument notwithstanding, it defies common sense to imply that SMW should be raised to reimburse workers for highly localized living costs (such as expensive housing or food prices). It is important to bear in mind that employers pay employees for the perceived value of the work undertaken, not to compensate them for their rent, food, energy, transportation, clothes, or childcare bills (which can differ materially by family and locality and are beyond employers’ control). Rather than tackle the structural causes of these high prices, it is much easier and convenient to place the burden on businesses to bear the costs of compensating workers for their high living expenses. Shifting the onus of the costs of living on shareholders and customers of the companies hiring low-wage workers - in other words, consciously divorcing pay rates from the work employees undertake, market conditions, or companies’ ability to pay their employees - could risk a significant reduction in low-wage job opportunities.

- *Poverty*

Another metric used by advocates for higher SMW is to compare earnings for full-time minimum wage workers with various poverty thresholds. The rationale is that, in addition to correcting market failure, SMW should be used to target poverty reduction. It is certainly true that for the minimum wage workers who could keep their jobs and hours, raising the hourly wage floor significantly could lift them above the relevant poverty line. Yet poverty is measured at the household level. The very reason why minimum wages have not been used as a primary tool to reduce poverty for households is that they were not considered particularly well targeted or effective for that purpose. Firstly, people who earn the minimum wage may not come from households in poverty. They include second earners (particularly part-time workers) or young people who live in households with parents who are not poor. Secondly, minimum wage hikes could have adverse consequences on employment prospects by reducing labor demand. Studies in jurisdictions where there is a longer history of minimum wage implementation show that minimum wage earners are more likely to work fewer hours than those earning higher hourly rates. The risk then is that higher minimum wages reduce demand for labor hours from low-productivity workers.

- *Other indicators*

As an alternative approach, we suggest that consideration be given to such factors as **CSSA and potential unemployment impact** as set out in our 2010 [submission](#) on setting the initial SMW rate. We believe these two benchmarks provide useful and relevant guidance in the determination of an appropriate SMW level by encouraging labor participation without disincentivizing hiring.

Conclusion

HKGCC supports the SMW's objectives of "forestalling excessively low wages, minimizing the loss of low-paid jobs, and sustaining Hong Kong's economic growth and competitiveness". That being the case, we question the effectiveness of SMW for achieving such outcomes given the reasons as mentioned in the foregoing. In addition, the regime appears to be losing relevance amidst the ongoing talent shortage and prospects of an aging population over the mid- to long-term. Notably, SMW is applicable to just a very small percentage of the total workforce of 3,766,000 in Hong Kong as of February 2023. **If the intention of SMW is to alleviate poverty, this could be achieved through dedicated or enhanced welfare measures such as household subsidies, child allowances, and preferential housing programs. If the purpose is to address market abuse in certain economic sectors, then the scope of application should be directed towards these economic sectors rather than adopting a blanket approach as is the current case.**

We hope you find our comments useful in the Minimum Wage Commission's deliberations on refining the SMW regime.

Yours sincerely,



George Leung
CEO