

On minimum wage

[Tsang Shu-ki](#) (1/5/04)

Yes, today is 1st May. About two months ago, I had an email exchange with a young student of mine at the university, which I now wish to share with visitors to this web page of mine. I'm quite confident that KL doesn't mind, although prior consent has not been obtained.

“Dear Dr Tsang,

I am a student who sat in your lessons before.Thank you for introducing me to some concepts of economics. I am interested in macroeconomics although I do not major in economics. The objective of sending this email to you is that I want to ask your opinions on the topic of minimum wage. Maybe you feel strange that I ask for you opinions. But I really want to know the point of view of an economist.

In Hong Kong, income inequality is serious. Low-skilled workers such as security guards and cleaning workers can earn only little money, even as they work for 12 hours a day. Government rejected to set up the minimum wage because it thought this policy distorts the market. However, some authors claim that the market itself is not free at all. This is because this kind of workers can only choose accepting the low wages or no income. In the real world, employees do not have power to reject low wages. In Hong Kong, the power of unions is weak. Unions also do not have the right of collective bargaining. It makes the employers extremely superior; they have the power to decide the wages.

The minimum wage can keep the market more balanced. It can also attract people who get the CSSA to get a job. The working incentive of workers will be higher, so, productivity will rise. Since those workers can earn more money, they will spend more. The aggregate demand will increase, which is beneficial to the economy. The neoclassical argues that this policy will increase the unemployment rate. However, the minimum that I suggest is not for the entire job market in Hong Kong. This is only for those marginal workers such as cleaning workers, security guards, waiters etc. Those products have significant internal demand. They are not similar to industries which can move to other regions. The demand is not elastic. So, the benefit to the workers is more than the disadvantage. Hence, I think the policy of minimum wage is beneficial to those marginal workers as well as our economy.

Can you give me some opinions on my point of view? Thank you very much.

Regards

KL”

“Dear KL,

I think that you already grasp some of the key points. Minimum wages require a combination of factors for them to provide adequate safeguard for the underclass:

(1) Collective bargaining and union power or effective government regulation and sanction: so that employers cannot impose additional workload on a set wage (or exploit it through various loopholes), which would push down the unit wage in reality.

(2) Low substitutability of the job: so that it would not just be “exported” outside the economy or transferred to other sectors.

Look at the case of household assistants from the Philippines. There is a legal minimum wage in HK, which is subjected to all sorts of abuse because factor (1) does not prevail. However, due to low substitutability, it still works to a certain extent.

In Europe, for example, international standards could also help to prevent the jobs from being easily exported.

I hope that these quick comments could be of some use to you.

Regards,

SKT”