



Economic Analysis of the Minimum Wage Ordinance & Individual Visit Scheme

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Economic analysis of the minimum wage

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Overview

- Conventional views on minimum wage
 - A binding price floor on the labor market
- The new economics of minimum wage
 - Does minimum wage kill jobs?
- Minimum wage in Hong Kong
 - Profile of a minimum-wage earner
 - Some macroeconomic data



都有權收取法定最低工資

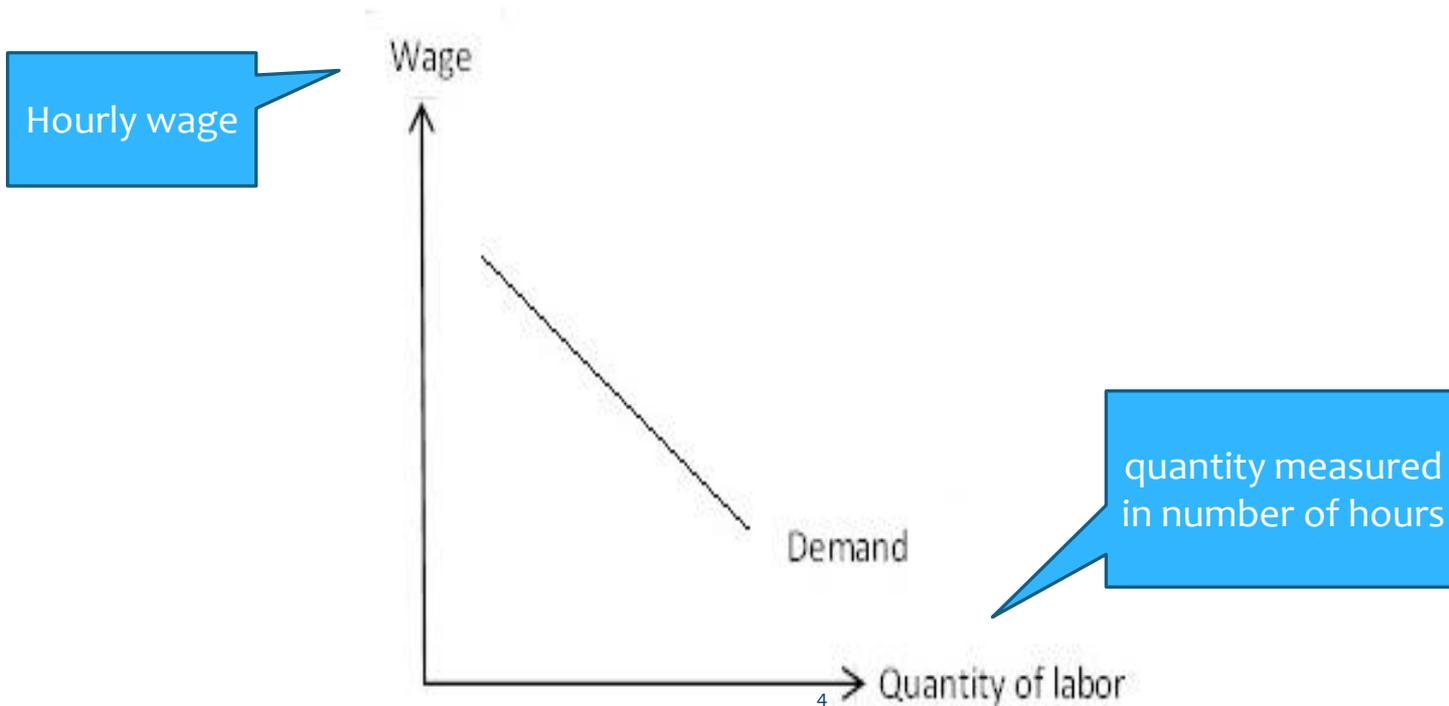
Minimum wage advertisement (2015)



如果獲行政長官批准

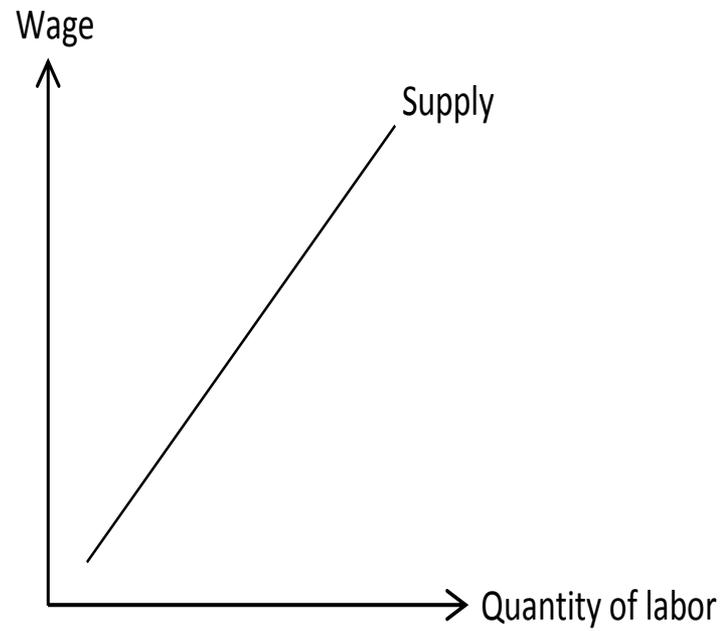
Labor Market: Demand Side

- * Let us look at the labor market
- * Firms employ workers for their labor service



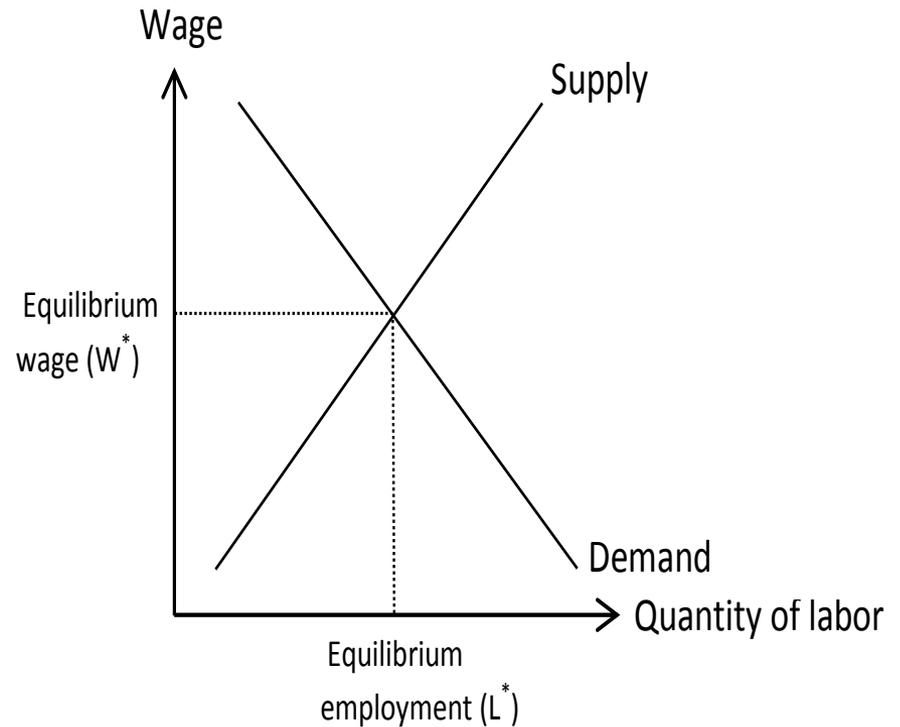
Labor Market: Supply Side

- * Workers sell their labor services in exchange for wage income



Labor Market Equilibrium

- * Supply and demand together give the equilibrium price (i.e., wage) and quantity of labor services
- * Wage is given to any individual employer or worker

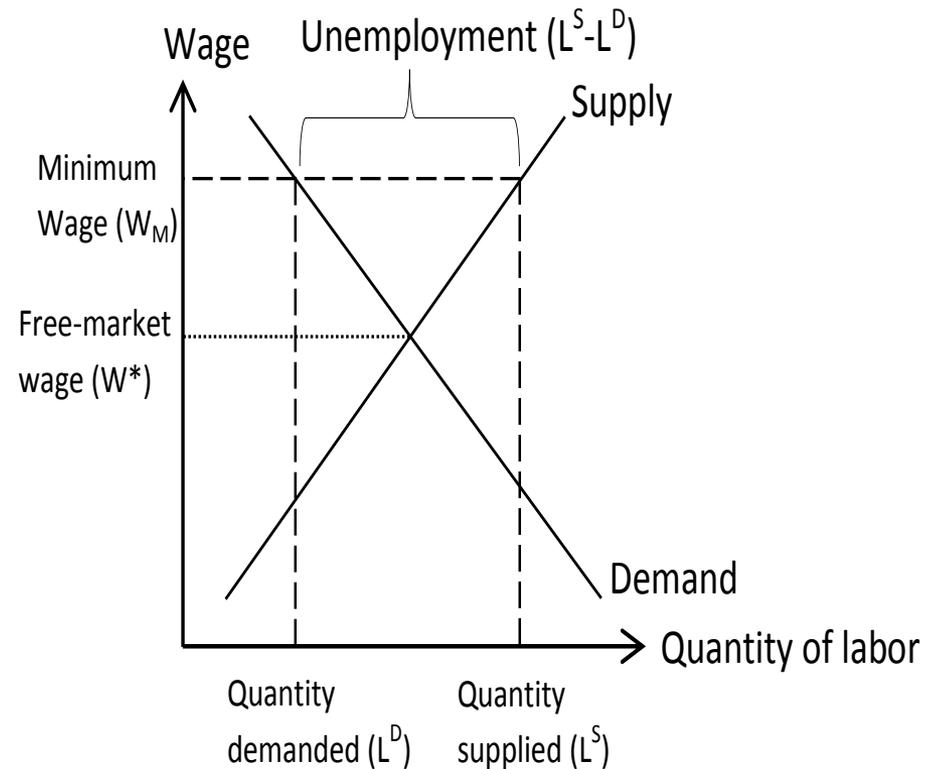


Assumptions

- * Perfect competition in labor market
 - * Perfect information and mobility
 - * Labor services are identical
- * Minimum wage covers all workers
- * Workers' productivity is unaffected by the wage rate

Minimum Wage: Conventional View

- * Minimum wage is an example of price floor
- * At the binding minimum wage rate of W_M ,
 - * Quantity demanded = L_D
 - * Quantity supplied = L_S
 - * $L_S > L_D$

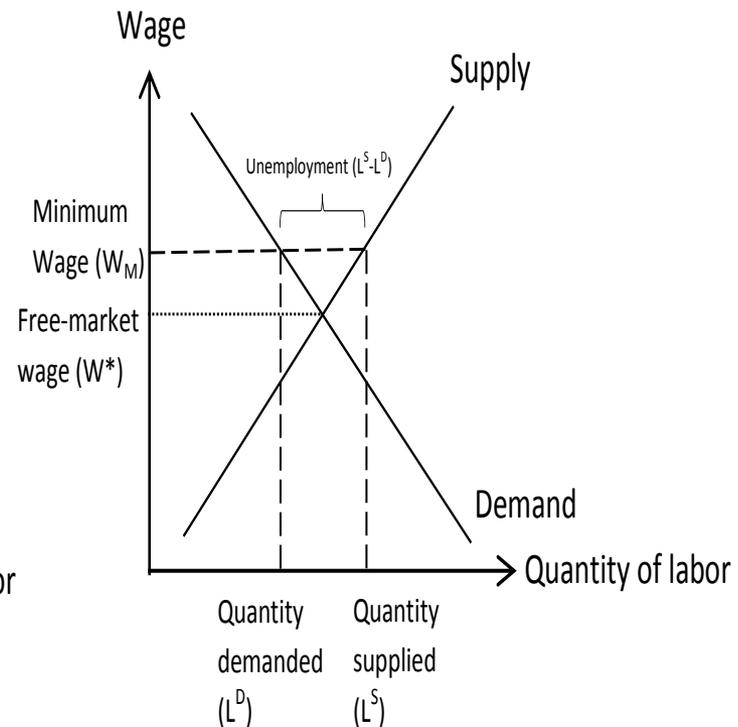
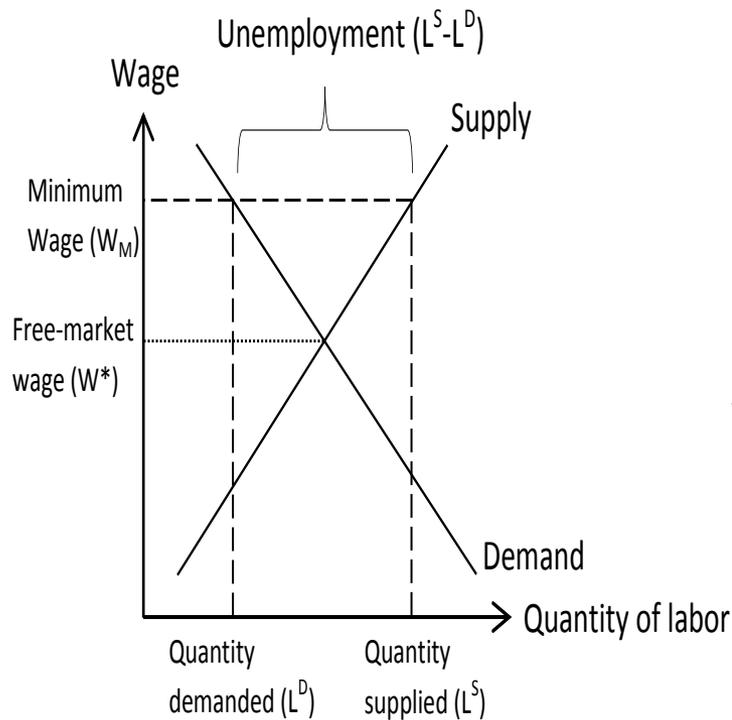


Minimum Wage: Conventional View

- * Workers are assumed to provide identical labor service
- * In reality, workers are different in capability, experience, education attainment, etc.
- * Unemployment will be more serious among the lower-productivity workers such as inexperienced youths and the disabled
- * Conventional views of minimum wage:
 - * Minimum wage causes unemployment (negative employment effect)
 - * Esp. among less-privileged workers

Flaws in Conventional View

- * The extent of unemployment may be exaggerated



Flaws in Conventional View

- * Labor market is less than perfect
 - * Information costs of job search
 - * Buyers have more market power, so that employers often set the wage instead of taking it as a given
- * In an imperfect labor market, a binding minimum wage can lead to a somewhat surprising result of more employment

Flaws in Conventional View

- * Minimum wage cannot cover all workers
 - * Surplus labor can move to the uncovered sector (consisting of self-employed people who are not covered by minimum wage law)
 - * There can be more employment (and lower wages) in the uncovered sector
- * **So, minimum wage causes unemployment, or not?**

New Economics of Minimum Wage

- * **Card and Krueger (1994)**
- * In 1992, the minimum wage in New Jersey (NJ) rose from US\$4.25 to US\$5.05 per hour
- * No change in the neighboring state of Pennsylvania (minimum wage standing at US\$4.25)
- * The employment in NJ was expected to decrease as a result

New Economics of Minimum Wage

- * However, survey results of fast-food employees in NJ shows that an increase in minimum wage led to an increase in employment
- * Based on a few more studies in different parts of the US, Card and Krueger (1995) concluded that the negative employment effects of minimum wage increases were minimal
- * Employment has even increased In some cases
- * This study has received a lot of attention not only from the academic circles, but also from policy makers and minimum wage supporters

New Economics of Minimum Wage

- * **Possible reasons for employment to increase**
- * Lower spending on training and fringe benefits
 - * If such spending cuts are large enough, the “total wage” (including wage and other employee-related expenses) can actually fall
- * Workers spend more after getting a minimum wage raise
- * Firms can pass along the extra costs to customers by raising prices

- * No consensus yet, but there are indeed a variety of ways for firms to respond to a minimum-wage hike (cutting employment surely one of them)

New Economics of Minimum Wage

- * **Neumark and Wascher (2008)** did an extensive survey:
 1. Most studies found that minimum wage created a negative employment effect
 2. Studies on the least-skilled groups provided relatively strong evidence of bigger drop in employment for these groups
 3. Any defects in data quality or methodology may lead to a very different conclusion

- * **Conventional wisdom seems to prevail, that minimum wage kills jobs**

Minimum Wage in HK: A Brief History

- * HK had some legislation relating to the minimum wage as early as in 1932
- * In the wake of the Asian Financial Crisis, some labor organizations proposed a minimum wage law to the government in 1998
- * In 2006, the HKSAR Government initiated a two-year voluntary wage protection movement for cleaning workers and security guards
- * In Feb 2009, the Provisional Minimum Wage Commission (PMWC) was set up to prepare for the minimum wage legislation

Minimum Wage in HK: A Brief History

- * The statutory minimum wage of HK\$28 per hour has come into effect since May 1, 2011
- * The rate shall be revised at least once in every two years
 - * It was increased to \$30 per hour with effect from May 1, 2013
 - * Current rate is \$32.5 (effective from May 1, 2015)
- * The minimum wage applies to all employees, full-time or part-time, with disabilities or not
 - * Some exceptions are domestic workers and student interns

Profile of a Min-Wage Earner (May to Jun 2011)

- * Most employees earning minimum wage were
 - * Females
 - * With lower educational attainment (F3 or below)
 - * Young (aged 15 to 24), or older employees (aged 45 and above)
- * Which sectors were hiring more minimum-wage earners?
 - * Security services (54.3%)
 - * Cleaning services (46.1%)
 - * Real estate maintenance management (37.0%)
 - * Elderly homes (25.8%)
 - * Number in bracket shows the proportion of minimum-wage earners

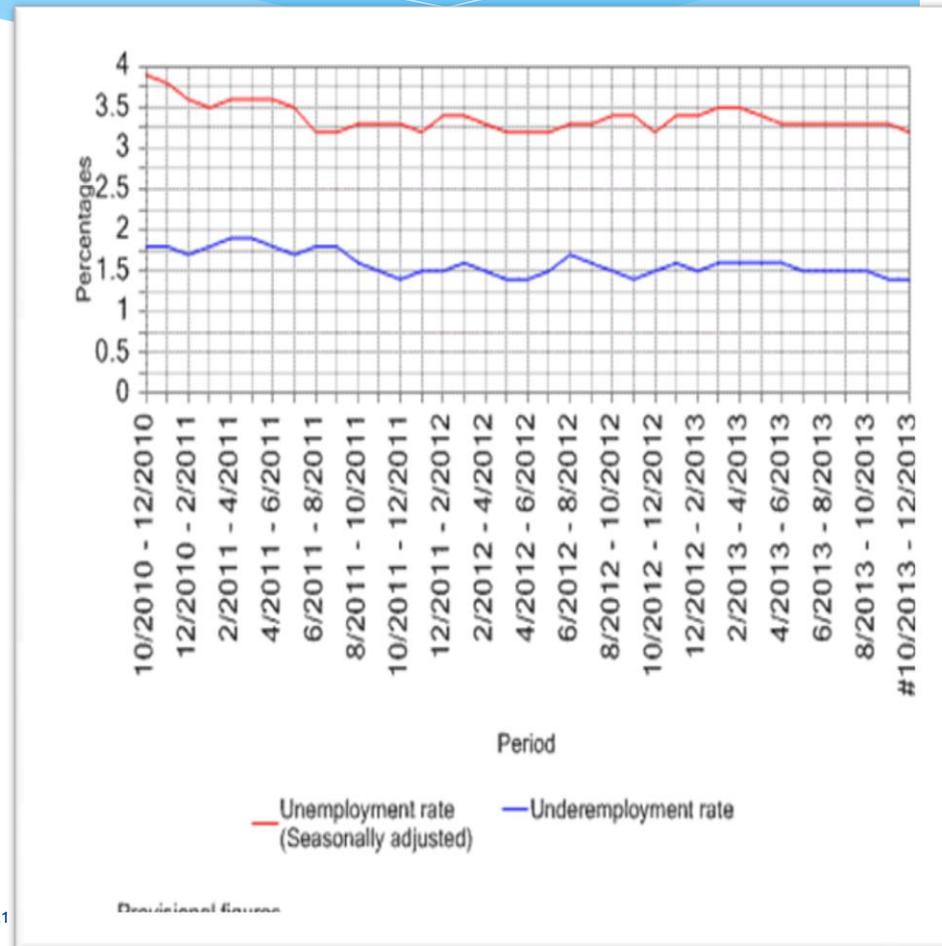
Two Years Later ...

Profile of a Min-Wage Earner (May to Jun 2013)

- * Most low-paid employees were
 - * Females
 - * With lower educational attainment (F3 or below)
 - * Older employees (aged 45 and above)
- * Which sectors were hiring more minimum-wage earning employees?
 - * Security services (34.8%)
 - * Cleaning services (27.9%)
 - * Real estate maintenance management (16.8%)
 - * Elderly homes (11.1%)
 - * Number in bracket shows the proportion of minimum-wage earners

Some Macro Data

- * The unemployment rate was
 - * Low and stable after the 2011 minimum wage legislation
 - * Low and stable after the 2013 minimum wage increase
- * No. of employed persons was 3 807 500 (Dec 2014 to Feb 2015)
- * 7.5% (265 000) more than that before May 2011, when minimum wage took effect
- * Most increases were female workers (181 200)



Other Issues

Workers

Employment effect

Does minimum wage kill jobs?

Fringe benefits and training

Does minimum wage reduce workers' fringe benefits? In particular, will there be fewer opportunities for on-the-job training?

Family income distribution and poverty reduction

Does minimum wage help low-income families and reduce poverty?

Wage distribution:

Does minimum wage increase wage inequality?

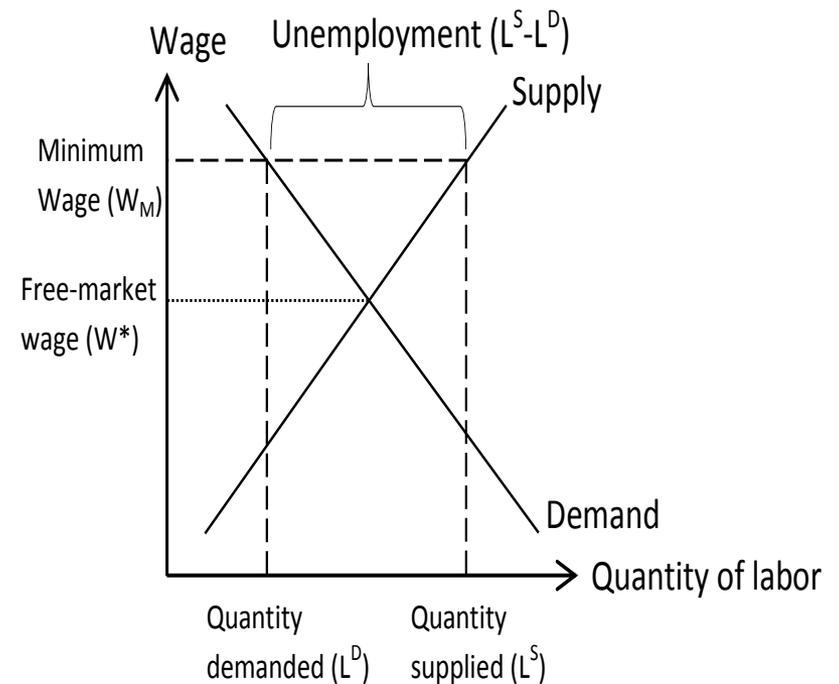
Business firms

Costs

Does minimum wage increase production costs?
Can it lower costs by forcing firms to be more efficient?

Questions for Discussion (1)

- * Suppose the minimum wage law has led to unemployment (see the figure)
- * What happens to the amount of unemployment if there is
 - An increase in the demand for labor
 - A decrease in the demand for labor
 - An increase in the supply of labor
 - A decrease in the supply of labor



Questions for Discussion (2)

- * The minimum wage law in Hong Kong was effective from May 1, 2011
- * Since then the unemployment rate has remained relatively stable
- * Can we conclude that minimum wage does not lead to unemployment?

Questions for Discussion (3)

- * The Labour Department has a list of frequently asked questions regarding the coverage of statutory minimum wage (SMW) in Hong Kong (http://www.labour.gov.hk/eng/faq/smw_converage.htm)
- * Visit the website and answer the following questions
 - a) Does SMW cover hourly-rated workers only?
 - b) Does SMW apply to student interns?
 - c) Does SMW apply to employees with disabilities? If so, would SMW hurt their employment opportunities?

Questions for Discussion (4)

- * Suppose the minimum wage cannot cover all workers
- * Some workers like self-employed and farm workers are uncovered
- * Let us divide a labor market into two parts, namely a covered sector and an uncovered sector
- * What is the effect of a minimum wage increase on these sectors?