

# **INCOME INEQUALITY & PUBLIC EXPENDITURE ON SOCIAL POLICY IN HONG KONG**

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Valentine Henrard

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# PREFACE

A key issue in Hong Kong society today is the high level of poverty and the growing income and wealth gaps. Poverty has become a daily issue of media attention and social debate, a sign that the Hong Kong public wants to understand why poverty remains a serious problem for so many people amidst such wealth. How is it that Hong Kong, one of the richest societies in the world, falls behind in helping the poor? How did Hong Kong society become so unequal?

Finding answers and perspectives to these questions requires considerable research. Civic Exchange will explore the phenomenon of poverty in Hong Kong in a series of publications in 2011-2013, of which this is the first. While it does not answer the vital questions fully, it uses available economic data and raises some questions for consideration.

We are grateful to Valentine Henrard, the author. She used her experience in Europe to compare Hong Kong to OECD countries, as well as to juxtapose Hong Kong with a number of Asian countries also with wide income and wealth gaps. We are grateful to Michelle Wong for the design and layout of the paper.

Christine Loh  
Chief Executive Officer

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# INTRODUCTION

Hong Kong is a city of substantial and enviable wealth. Over the last decade, the Hong Kong economy has grown by close to 50% and in 2010 GDP increased by 6.8%. The HKSAR Government's reserves are extraordinarily high by world standards, and it currently has a yearly budget surplus of HK\$71.3 billion.

Yet, income inequality is greater in Hong Kong than in any developed economy and compares with levels found in Asian countries with high income dispersion such as Thailand, Cambodia, the Philippines and Singapore. Moreover, Hong Kong's growth is not being shared fairly: income inequality has been rising over the past two decades and this increase has been greater in Hong Kong than in other developed economies.

The social environment has worsened for those at the bottom of the income distribution over the past decade. They have seen wages and conditions of employment deteriorate, and standards of housing, education, hospitals, social services and care for those with special needs have fallen. This new environment has become the key social issue in Hong Kong and is being discussed and debated widely in the media. It creates serious policy challenges for the HKSAR Government, which is beginning to show concern about the rising risk of social discontent. As the election for the next Chief Executive draws near, poverty and the divide between rich and poor are becoming defining issues.

In OECD countries, governments have been spending more on social policy in order to offset the growing inequalities.<sup>1</sup> They implemented policies to help people be in employment and earn a wage high enough to keep them and their families out of poverty. In Hong Kong, however, solving the poverty problems was, to a large extent, left to individuals, and public spending on social policy is rather low compared with other developed economies. The question is whether and to what extent the attitude of keeping both taxes and social spending low has led to intolerable levels of poverty amidst plenty and at the same time widened the income gap.

Hong Kong can certainly spend more on social policy and it will help the poor, but to reduce income inequality will in fact be more complex and challenging because many other factors are involved, notably the shift in demography, Hong Kong's tax system and also the highly complex land taxation system. Nevertheless, a full discussion of these issues lies beyond the ambit of this paper.

This paper looks at income inequality in Hong Kong and compares it with other developed economies, as well as with neighbouring Asian economies (Section 1). It also looks at the city's public expenditure in key social policy areas and the redistributive impact of Hong Kong's tax and benefit system (Section 2). Finally, it discusses what the HKSAR Government is doing to alleviate hardship in recent years (Section 3).

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1 OECD (2008), *Growing Unequal?*, Paris: OECD Publishing.

# 2



## A HIGH AND INCREASING INCOME GAP

This section looks at the income gap and its evolution over two decades in Hong Kong and compares it with income disparities in OECD and Asian economies. Even though income disparity is only a partial measure of economic inequality in a society, it is an important piece of the bigger socio-economic picture. It can also be compared more reliably across countries than other measures of economic resources.

### 2.1 An increasing income gap

#### 2.1.1 Increased dispersion in employment income of individuals

From 1996 to 2006, the median income (in constant prices) for all working individuals increased from around HK\$9,500 to HK\$10,000 (Table 1).<sup>2</sup>

The median income from the poorest 10% of the population (first decile group) stagnated around HK\$3,200 and the median incomes from the second and third decile groups fell by 10% and 2% respectively. In contrast, the median income of the richest 10% of the population increased by 22% from HK\$36,900 in 1996 to HK\$45,000 in 2006. In real terms, the earnings of the bottom decile groups have fallen.<sup>3</sup>

The 2006 Population By-census data show the working population in the first and second decile groups share certain socio-economic characteristics: they have low education levels, and are either relatively young or old and engaged in low-skilled occupations. Among them is a large share of new arrivals from Mainland China.<sup>4</sup> These are the groups that have seen their standard of living worsen. They experience multiple disadvantages: unemployment, low income, inadequate housing, poor education and poor health care (Box 1).

<sup>2</sup> Income data provided by the Hong Kong Census and Statistics Department comprise income from main employment, secondary employment and other cash income, which includes income received regularly from investments such as rental income, interest and dividends.

<sup>3</sup> Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

<sup>4</sup> Mainlanders who have resided in Hong Kong for less than seven years do not yet qualify as permanent residents and thus are not entitled to Hong Kong welfare. Among the first and second decile groups are also the foreign domestic helpers (FDH), who mostly come from Indonesia and the Philippines, and live with their employers. The FDH are ensured a minimum wage, which has been reduced over the past decade.



The 2006 data also show the richest 20% of the people in Hong Kong receive over 50% of the total working population's income, while the poorest 20% earned less than 5%. The share of income attributed to the lower decile groups has fallen since 1996 while that of the higher decile groups rose.

Hence, there has been an increased dispersion in individuals' employment income from 1996 to 2006. The Gini coefficient calculated on employment income increased from 0.483 in 1996 to 0.488 in 2001 and reached 0.500 in 2006.<sup>5</sup>

**Table 1**

The dispersion in employment income of individuals has increased

Median monthly income from main employment (1) by decile groups of working population (2) and their share in total monthly income, 1996, 2001 and 2006

	1996		2001		2006	
	HK\$	%	HK\$	%	HK\$	%
1 (lowest)	3 149	1.9	3 395	1.7	3 200	1.6
2	4 920	3.3	4 850	3.0	4 500	2.8
3	6 396	4.3	6 790	4.1	6 300	3.9
4	7 380	5.1	7 760	5.0	7 700	4.8
5	8 364	5.9	9 700	5.9	9 000	5.7
6	9 840	6.7	10 913	6.8	10 500	6.6
7	11 808	8.1	13 580	8.4	13 000	8.3
8	14 760	9.9	17 460	10.7	17 000	10.6
9	19 680	13.6	23 038	14.5	23 750	14.8
10 (highest)	36 900	41.3	43 650	40.1	45 000	40.9
<b>Total</b>	<b>9 348</b>	<b>100.0</b>	<b>9 700</b>	<b>100.0</b>	<b>10 000</b>	<b>100.0</b>

Notes: (1) at constant prices (June 2006)  
(2) The figures exclude unpaid family workers.

Source: Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

## Box 1

### Poverty in Hong Kong

The 'poverty rate' is the percentage of the population living below the poverty line, a threshold below which a given household is regarded as poor. Jurisdictions have different definitions of what is considered acceptable living standards, thus direct comparisons of poverty rates across countries is not easy. The Hong Kong Census and Statistics Department provides figures on the proportion of persons living in households with income below the average level of Comprehensive Social Security Assistance (CSSA) payment. This definition differs from the one used in many countries, where people are regarded as poor when their household income is less than half of the median income.

In 2006, half of the median household income in Hong Kong was HK\$8,625, while averaged CSSA payments ranged from HK\$3,487 for a household with one person to HK\$13,771 for a household comprising six or more people. Since the majority of CSSA recipients belong to smaller sized households, it can be assumed that Hong Kong's poverty line is below 50% of the median household income. It is therefore very likely that poverty rates measured against a poverty line based on CSSA levels is low when compared with rates measured against half of the median household income.

<sup>5</sup> The Gini coefficient is a summary measure of dispersion in income distribution. It measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. The value of the Gini coefficient ranges between 0, for "perfect equality" (i.e. each share of the population gets the same share of income) and 1, for "perfect inequality" (i.e. all income goes to the share of the population with the highest income).

The government-appointed Commission on Poverty in 2007 estimated that the share to total population of poor people living in households with income below average CSSA payments decreased from 14.5% in 2001 to 11.9% in 2006 (822,800 persons were living in households with income below the average CSSA payment in 2006). The poverty rate averaged 11.1% across OECD countries in the late-2000s.<sup>6</sup> Hence, even though the data are not fully comparable, it can be concluded that on average the poverty rate is higher in Hong Kong than in OECD countries, especially since Hong Kong's poverty rates are likely underestimated.

The 2009 poverty data published by the Census and Statistics Department show that the downward trend in the proportion of persons aged between 15 and 59 living in household with income below average CSSA payment stopped in 2009. This proportion increased by close to 30% in 2009.<sup>7</sup>

Even though the share of poor households (as measured by the Census and Statistics Department) might not have increased over the last decade, the average income of lower deciles has been decreasing (see above). Moreover, overall earnings mobility decreased in both directions in 1996-2005 compared with the 1991-2000 period.<sup>8</sup>

### 2.1.2 Increased dispersion in household income

'Household income' is obtained by adding income from all household members. Over the period from 1996 to 2006, monthly household income – before benefits and taxes – at the 10<sup>th</sup>, 20<sup>th</sup>, 30<sup>th</sup> and 40<sup>th</sup> percentile dropped significantly, while income of households at higher percentiles (P50, P60, P70, P80 and P90) rose. The monthly household income at the 10<sup>th</sup> percentile (lowest) fell by more than 20% (Table 2). Hence, the financial situation of the poorest part of the population has deteriorated.

**Table 2**

Monthly Income has decreased for households at the lower end of the distribution

Monthly household income (HK\$) before taxes and transfers at constant prices (June 2006) for selected percentiles, 1996, 2001 and 2006

Percentile	1996	2001	2006
10th (P10)	5 412	4 850	4 200
20th (P20)	8 457	8 206	7 500
30th (P30)	11 070	10 961	10 100
40th (P40)	13 889	14 550	13 600
50th (P50)	17 220	18 144	17 250
60th (P60)	20 664	22 310	21 500
70th (P70)	25 584	28 130	27 400
80th (P80)	33 151	36 540	36 000
90th (P90)	48 462	53 350	53 750

Source: Census and Statistics Department (2007), *Thematic Report: House hold Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

Figure 1 shows the proportion of total monthly household income (before tax and social transfers) earned by the lower decile groups (lowest 20% and second 20%) declined from 1996 to 2006. It remained steady for the middle decile group (third 20%), and increased in the upper decile groups (fourth 20% and highest 20%).

6 OECD (2011), *Society at a Glance 2010*, Paris: OECD Publishing.

7 Census and Statistics Department (2010), *Indicators of Poverty, an Update for 2009*, [http://www.lwb.gov.hk/eng/other\\_info/2009%20Poverty%20Indicators\\_eng.pdf](http://www.lwb.gov.hk/eng/other_info/2009%20Poverty%20Indicators_eng.pdf)

8 According to a study conducted by the Hong Kong Institute of Economics and Business Strategies of the University of Hong Kong. Details on this study are presented in Commission on Poverty Paper 23/2006.

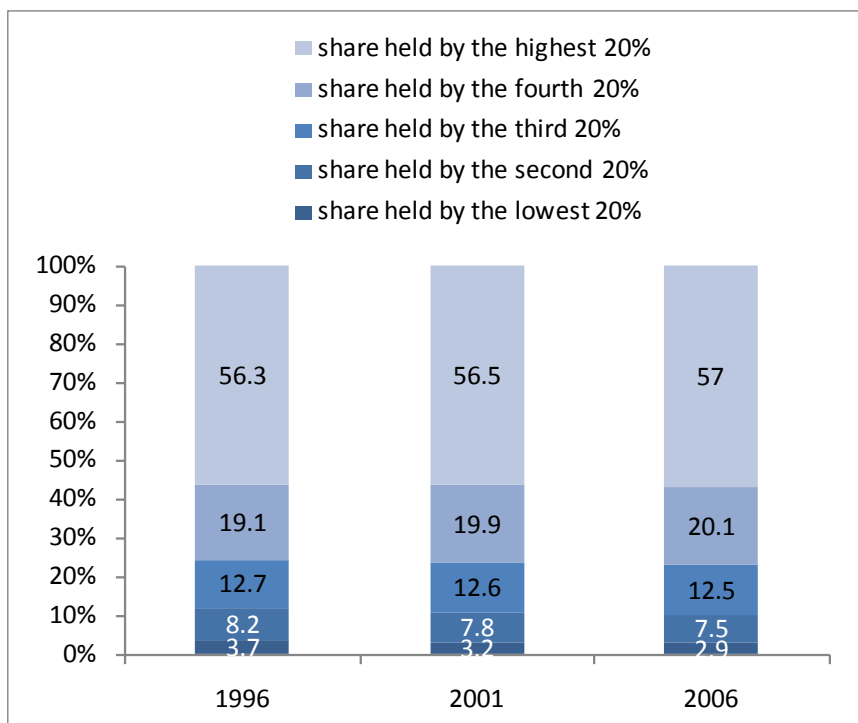


Income inequality in terms of Gini coefficient rose over the past two decades in Hong Kong. The Gini coefficient based on household monthly income before tax and social transfers increased from 0.453 in 1986 to 0.525 in 2001 and reached 0.533 in 2006 (Table 3). From 1996 to 2006, the P90/P10 ratio increased from 9 to almost 13 showing a great widening of income dispersion coming from both ends of the income distribution.<sup>9</sup> In 2006, the income of the top decile was almost thirteen times higher than that of the bottom one.

**Figure 1**

Percentage share of income held by different income groups, 1996, 2001 and 2006

Original household monthly income



Source: Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

**Table 3**

Gini coefficient and inter-decile ratio (P90/P10), 1996, 2001 and 2006

	1986	1991	1996	2001	2006
P90/P10	...	...	9.0	11.0	12.8
Gini (1)	0.453	0.476	0.518	0.525	0.533
Gini (2)	...	...	0.466	0.470	0.475

Notes: (1) Gini coefficient based on household monthly income before tax and social transfers.

(2) Gini coefficient based on household monthly income after tax and social transfers.

Sources: Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government; Commission on Poverty (2007), *Understanding Poverty*, Hong Kong: HKSAR Government.

More recent figures compiled by the Census and Statistics department from the General Household Survey, show that income dispersion kept on widening since 2006. From 2006 to 2010 the median monthly household income earned by the first decile group has decreased by 3% while the average income earned by the highest decile group has increased by 10%.<sup>10</sup>

<sup>9</sup> The inter-decile income ratio is the ratio between the upper limit of the 9<sup>th</sup> decile and that of the 1<sup>st</sup> one. It shows the spread of income distribution.

<sup>10</sup> Here monthly household income refers to the total cash income, including earnings from all jobs and other cash incomes received in the month by all members of the household. The statistics on average monthly household income by decile group can be found in the replies made by the Census and Statistics Department to Legislative Council questions: <http://www.info.gov.hk/gia/general/201004/14/P201004140141.htm> and <http://www.info.gov.hk/gia/general/201104/13/P201104130120.htm>

## 2.2 High income dispersion compared with OECD and Asian countries

Despite having strong economic growth for many years and accumulating substantial wealth, Hong Kong's economy has certain interesting characteristics when examined against OECD experience. Hong Kong's Gini coefficient is close to Mexico, the poorest and most unequal OECD country (Figure 2). Hong Kong also fares worse than many Asian countries, which are much less developed and considerably poorer.

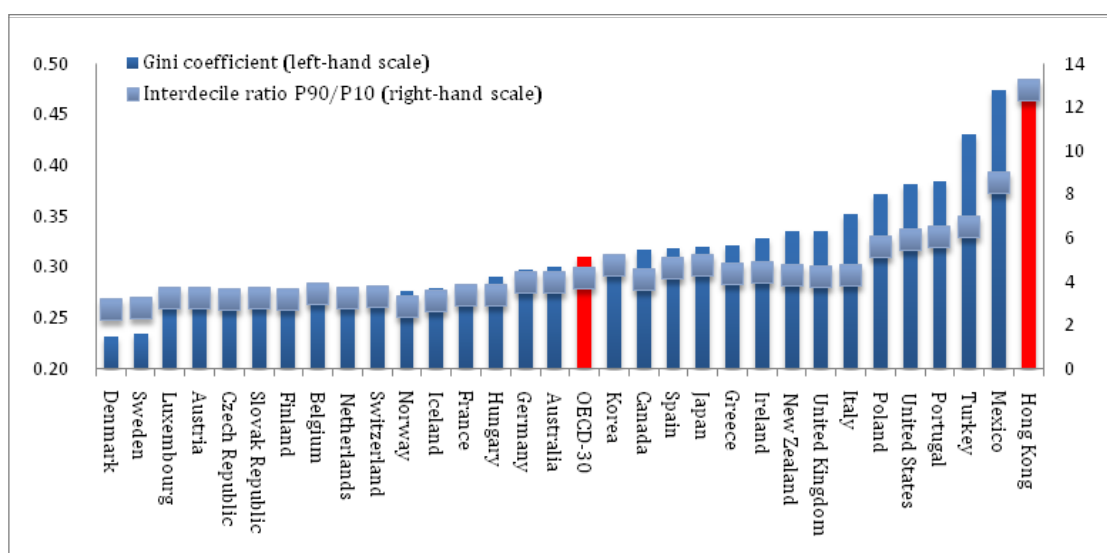
Figure 2 shows the OECD's Gini coefficients (after taxes and transfers)<sup>11</sup> ranked in increasing order of income disparity with Hong Kong added for comparison. Hong Kong stands at the far end together with Turkey and Mexico, respectively 38% and 52% above the OECD average. In fact, Hong Kong showed an even wider distribution of disposable income, with a Gini coefficient of 0.475. At this level, Hong Kong's coefficient is more than twice those of Denmark and Sweden, often regarded as the most "equal" OECD countries.

The P90/P10 ratio also shows large disparities across countries. Hong Kong fares the worst with the income of the top decile being more than 12 times higher than that of the bottom decile. This ratio was less than three times in Denmark, Sweden and Norway.

**Figure 2**

Income inequality is greater in Hong Kong than in any OECD country

Gini coefficient of income inequality, mid-2000s, and inter-decile ratio P90/P10



*Notes:* (1) Countries are ranked, from left to right, in order of increasing Gini coefficient. Data refer to the mid-2000s for all countries except for Japan and Switzerland, where they refer to 2000.

(2) The income concept used for OECD data is that of disposable household income in cash, adjusted for household size with an elasticity of 0.5.

*Source:* OECD Income distribution questionnaire for OECD countries, OECD (2008), *Growing Unequal - Income Distribution and poverty in OECD Countries*, Paris: OECD Publishing; Census and Statistics Department (2007) and Census and Statistics Department (2006), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government for HKSAR data.

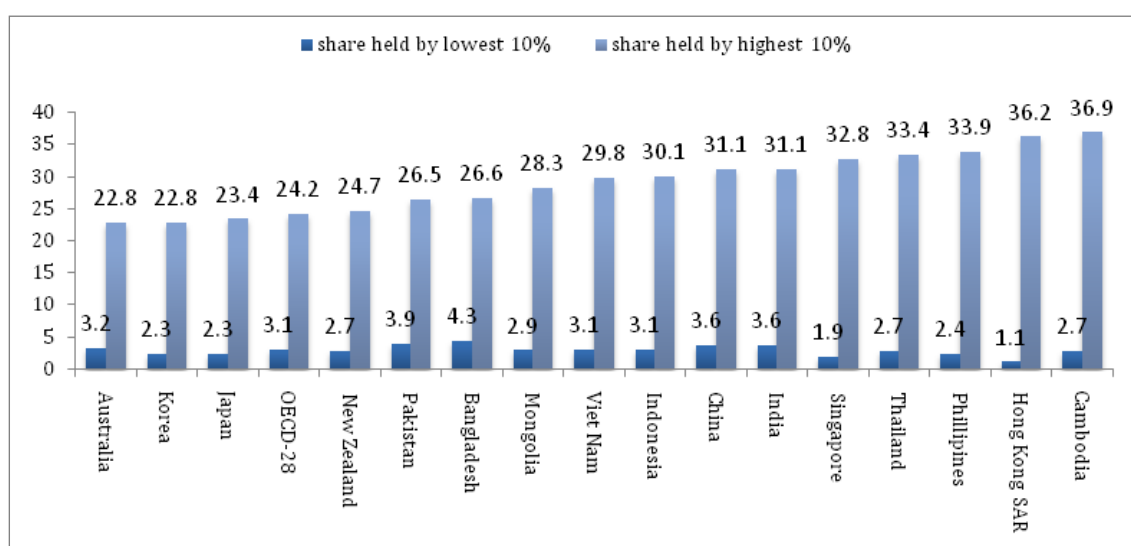
<sup>11</sup> The post-tax and social transfers Gini coefficient is a measure of disposable income inequality after taxes have been deducted (including taxes on wealth and income, social insurance contributions and employer's social contributions) and benefits have been added (such as unemployment, old-age, survivors, sickness, disability, education, family benefits, housing allowances and other social exclusion benefits).

Levels of income inequality also vary across Asia.<sup>12</sup> Figure 3 compares the share of total income earned by the poorest 10% with the richest 10% income groups. Incomes are highly unequally distributed in Cambodia, Hong Kong, the Philippines, Thailand and Singapore. Australia, South Korea and Japan have much lower income disparities. The richest 10% earn 30% or more of the overall income in Hong Kong, China, India, Indonesia, Singapore, Thailand, the Philippines and Cambodia. In South Korea, Japan, New Zealand, Mongolia, Singapore, Thailand, the Philippines, Hong Kong and Cambodia, the poorest 10% receive less than 3% of total income. Hence, the greatest income dispersion, as measured by the difference between the shares of total income received by the lowest and highest 10% of households, appears in Thailand, Cambodia, the Philippines, Singapore and Hong Kong.

The Gini coefficient also suggests greater income inequality in Hong Kong: it is higher than in China (0.415) Thailand (0.425), the Philippines (0.440) and Cambodia (0.442).<sup>13</sup>

**Figure 3**

Household income share held by the highest and lowest 10% income groups – Asian and Pacific Economies



Notes: (1) 2005/06 data except for Japan 2003, Mongolia 2008, Indonesia 2007, Singapore, 1998, Thailand 2002 and Cambodia 2007.

(2) OECD-28 refers to the unweighted average for 28 OECD economies.

Sources: The World Bank, World Development Indicators Online Database, <http://data.worldbank.org/indicator>; except for Australia, New Zealand, Korea and Japan from OECD (2008), *Growing Unequal? - Income Distribution and Poverty in OECD Countries*, Paris: OECD Publishing.

Among OECD countries, inequality has generally been rising since the mid-1980s. From the mid-1980s to the mid-2000s there was an increasing trend in two-thirds of the countries. Across the 24 OECD countries for which data were available, the rise was moderate (around 0.02 point increase in the Gini coefficient i.e. around 7%) but not insignificant. As many OECD governments increased taxes and spent more on social benefits, some believe the increase in income inequality was probably larger than shown by the data i.e. it would have been larger without government intervention.<sup>14</sup> In the case of Hong Kong, from the mid-1990s to the mid-2000s, the increase in income inequality was 0.009 point (see above), which compares with 0.002 for OECD countries over the same period. Income inequality hence increased more strongly in Hong Kong than across OECD countries over this decade.

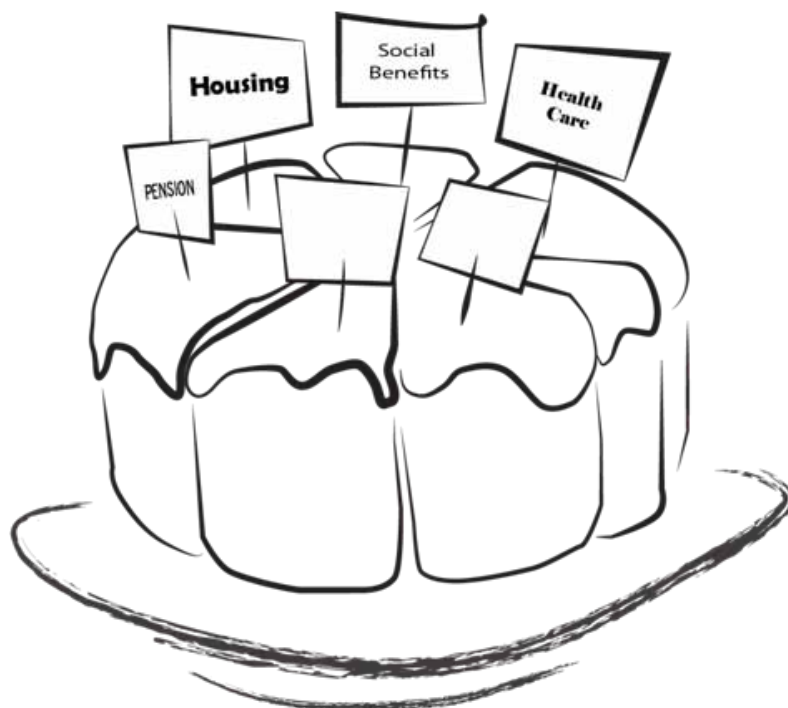
12 Data refer to Asian economies covered by OECD (2009), *Society at a Glance – Asia / Pacific Edition*, Paris: OECD Publishing. When equivalent and/or comparable data were available, Australia and New Zealand, two Pacific economies, were included.

13 World Development Indicators Online Database, <http://data.worldbank.org/indicator> and Asian Development Bank (2010), *Key Indicators for Asia and The Pacific*, Mandaluying City: ADB Publishing. Data for China refer to the year 2005, for Thailand to the year 2004 and for the Philippines and Cambodia to the year 2007.

14 OECD (2008), *Growing Unequal?*, Paris: OECD Publishing.

# 3

## GOVERNMENT SOCIAL SPENDING IN HONG KONG



Traditionally, Hong Kong is seen as a low tax economy, where the government keeps public spending low and practices non-interventionist policies. The Basic Law, Hong Kong's post-1997 mini-constitution, explicitly states that the government should maintain a low tax policy and keep public expenditure within the limits of revenues.<sup>15</sup> At the time the Basic Law was drafted in the 1980s, this formula was touted as crucial to maintaining Hong Kong's economic success.

### 3.1 Main features of Hong Kong's social welfare system

The general goal of welfare benefit systems is to support low-income families to achieve a certain standard of living. These systems are also designed to foster economic self-sufficiency by encouraging recipients to work.

In Hong Kong, the overall scale of transfer payments is rather limited compared with most developed economies. Nevertheless, the government provides significant benefits in kind in terms of low-cost health care, free education and subsidised public housing,

#### 3.1.1 Social Benefits

The Social Welfare Department administers the social security system in Hong Kong, which is a major component of the Hong Kong's welfare system. It aims to provide a safety net to ensure that people with limited or no income can support themselves financially.

<sup>15</sup> Articles 107 and 108, Chapter V, *Basic Law*.

The social support system addresses contingencies such as old age, disability, illness, unemployment and low earnings. The Comprehensive Social Security Assistance Scheme (CSSA)<sup>16</sup> and Social Security Allowance Scheme (SSA)<sup>17</sup> form the spine of the system. These are non-contributory in nature and entirely funded from government revenue.<sup>18</sup>

The majority of the CSSA recipients are the elderly, accounting for 53% of total CSSA cases in 2009 (Table 4). Other major categories include the unemployed and single parents, which accounted for 12.2% and 11% of the cases respectively. CSSA recipients between the aged of 15 and 59 who are unemployed or partially employed, must actively seek full-time employment.<sup>19</sup> It has been observed that while CSSA acts as an income supplement to help people meet their subsistence needs such as food and clothing, it fails to lift them out of poverty because the scale of the programme is very small.<sup>20</sup>

In 2008/09, the HKSAR Government spent HK\$39.2 billion on social welfare<sup>21</sup> out of which 47% (HK\$18.6 billion) was spent on CSSA and 22% (HK\$8.8 billion) on SSA. This was an increase of more than 50% from the 1998/99 total spend of HK\$17.8 billion for both schemes (Figure 4, panel A). The growth in expenditure relates to the growth in the number of recipients. The number of CSSA cases had grown by around 24% (low earnings recipients experienced the largest increase, Table 4) and SSA cases by 16% (Figure 4, panel B).<sup>22</sup>

- 
- 16 The CSSA Scheme is means-tested and targeted at the poorest people. CSSA recipients are entitled to free health care at public hospitals or clinics. It includes several “standard rates” for different categories of recipients. Standard rates for children and elderly are higher, as are rates for individuals living alone. There are various supplements for families with an elderly, disabled or sick member, for single parents and for severely disabled persons. There are also special grants to cover special household expenses such as rent or rent deposits.
- 17 The SSA Scheme is made up of two allowances – Old Age Allowance and Disability Allowance. They provide monthly non-means-tested allowances for those aged 65 or over and the severely disabled who are not receiving CSSA. It is designed as an income supplement to help people meet additional financial needs.
- 18 Social Security also comprises the Criminal and Law Enforcement Injuries Compensation (CLEIC) Scheme, Traffic Accident Victims Assistance (TAVA) Scheme and Emergency Relief for victims of natural or other disasters. The Employers’ Liability Scheme (imposed by legislation) requires employers to provide sickness benefits, maternity benefits and redundancy payments to employees who have sufficient length of service.
- 19 The SFS aims to help CSSA recipients take up paid employment. It has two components: the Active Employment Assistance Programme (AEA) and the Community Work Programme. Under the AEA, employable recipients receive personalised employment assistance, training and other support services. As for the Community Work Programme, CSSA recipients must perform unpaid community work. It also includes a financial incentive during the first month of paid work should they find a job.
- 20 Tsoi Kcon-wah (2002), “Poverty eradication and Social Security in Hong Kong”, in D. L. T. Shek, L. M. Chow, A. C. Fai, and J. J. Lee, eds., *Advances in Social Welfare in Hong Kong*, Hong Kong: The Chinese University of Hong Kong.
- 21 Total recurrent public expenditure on social welfare. Data source: Social Welfare Department (2010), *SWD Review 2007-08 & 2008-09*, Hong Kong: HKSAR Government.
- 22 A case may refer to a single person or a family.

**Table 4**

CSSA cases by categories and shares (in percentage), 1999 to 2009

Categories of CSSA cases

Year	Old age	Permanent disability	Ill health	Single parent	Low earnings	Unemployment	Others	Total
<b>1999</b>	133 613	11 732	19 946	25 476	8 008	28 085	3 821	230 681
	57.9	5.1	8.6	11.0	3.5	12.2	1.7	100.0
<b>2000</b>	134 230	12 243	19 800	25 902	8 432	23 573	3 880	228 060
	58.9	5.4	8.7	11.4	3.7	10.3	1.7	100.0
<b>2001</b>	138 232	13 522	19 705	28 504	9 008	28 886	3 816	241 673
	57.2	5.6	8.2	11.8	3.7	12.0	1.6	100.0
<b>2002</b>	142 762	14 717	20 874	33 156	10 607	40 513	3 942	266 571
	53.6	5.5	7.8	12.4	4.0	15.2	1.5	100.0
<b>2003</b>	147 032	15 697	22 198	37 301	13 534	50 118	4 326	290 206
	50.7	5.4	7.6	12.9	4.7	17.3	1.5	100.0
<b>2004</b>	149 821	16 764	23 201	39 536	16 176	45 231	4 965	295 694
	50.7	5.7	7.8	13.4	5.5	15.3	1.7	100.0
<b>2005</b>	151 934	17 482	23 962	39 755	18 089	41 436	5 353	298 011
	51.0	5.9	8.0	13.3	6.1	13.9	1.8	100.0
<b>2006</b>	152 507	17 989	24 301	38 449	18 257	37 819	6 011	295 333
	51.6	6.1	8.2	13.0	6.2	12.8	2.0	100.0
<b>2007</b>	152 515	17 924	24 436	37 036	17 221	32 893	6 120	288 145
	52.9	6.2	8.5	12.9	6.0	11.4	2.1	100.0
<b>2008</b>	151 954	17 796	24 440	36 192	16 080	31 772	6 335	284 569
	53.4	6.3	8.6	12.7	5.7	11.2	2.2	100.0
<b>2009</b>	153 448	18 146	25 294	36 233	15 633	33 279	7 106	289 139
	53.1	6.3	8.7	12.5	5.4	11.5	2.5	100.0
<b>Increase 1999-2009</b>	14.8	54.7	26.8	42.2	95.2	18.5	86.0	25.3

Note: Figures correspond to end of year.

Source: Census and Statistics Department (2010), "Statistics on Comprehensive Social Security Assistance Scheme 1999 to 2009", in *Hong Kong Monthly Digest of Statistics September 2010*, Hong Kong: HKSAR Government.

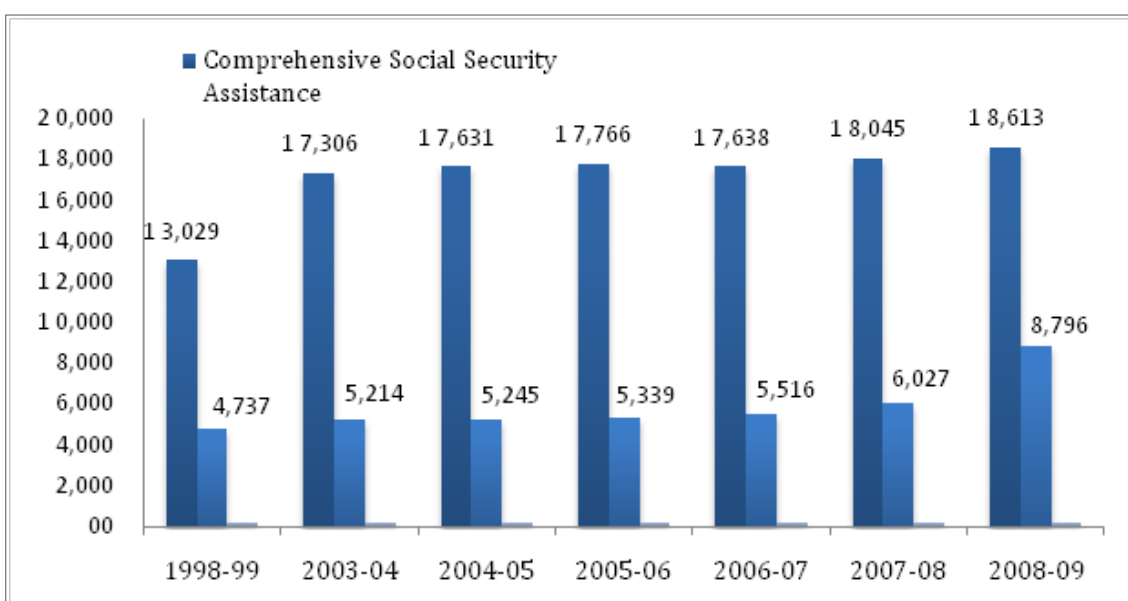
Since 1997, benefit amounts have been considerably reduced. Average monthly CSSA payments to house holds have been cut from 1999/2000 to 2009/10 for all households except for single person households (Annex A1) as a response to the Asian financial crisis. Following the Asian financial crisis, Hong Kong experienced deflation up until 2004, which became a justification for welfare payment reductions. CSSA benefits were more severely reduced from 2003 as the number of claimants surged and welfare was perceived as a public burden.<sup>23</sup>

**Figure 4**

Social security schemes, amounts paid and number of cases, 1998/99 to 2008/09

**Panel A**

Amounts paid on social security schemes, 1998/99 to 2008/09, in HK\$ millions

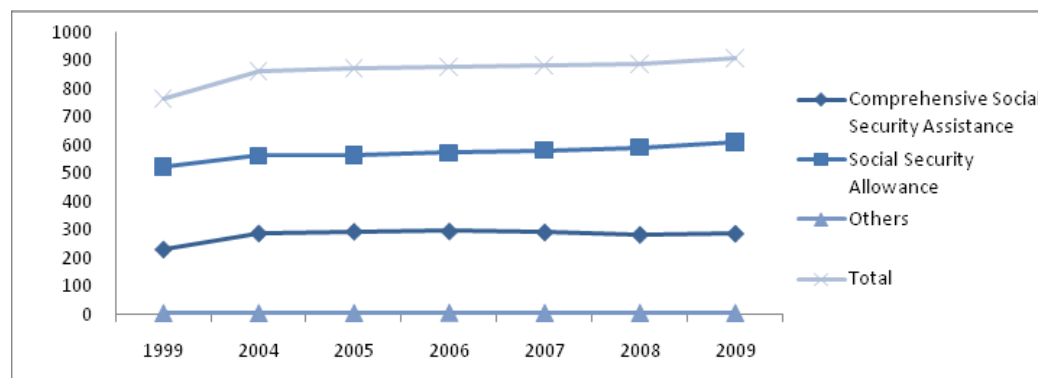


23 Latter, T. (2009), "Shaping a Budget Strategy for Hong Kong", in *Hong Kong's Budget: Challenges and Solutions for the Longer Term*, Hong Kong: Civic Exchange.



## Panel B

Number of cases under social security schemes, 1998/99 to 2008/09, in thousands



*Notes:* Expenditure for 2008/09 are provisional figures. The category “others” includes Criminal and Law Enforcement Injuries Compensation, Traffic Accident Victims Assistance, and Emergency Relief. Expenditure figures for 2007/08 and 2008/09 include additional months of standard rate payments on CSSA and CSA, as well as one-off grants for Old Age.

*Source:* Census and Statistics Department (2010), “Statistics on Comprehensive Social Security Assistance Scheme 1999 to 2009”, in *Hong Kong Monthly Digest of Statistics September 2010*, Hong Kong: HKSAR Government.

### 3.1.2 Health Care

Hong Kong’s longstanding policy is to provide a quality health care service for all at affordable prices. The Health, Welfare and Food Bureau deals with policy while the Department of Health is the implementation arm with the Hospital Authority managing public hospitals. Most health promotion and preventive services are provided by the public sector while primary curative services are mainly provided by the private sector. For secondary and tertiary curative care, the public sector is the dominant provider. As there are no social security contributions, all public finances for health care services come from general government funds. The health services provided by the public sector are largely subsidised while the private health sector is mainly financed by household money.<sup>24</sup>

In 2009/10, the government only allocated 2.4% of GDP to health spending (see below), which is low by the standards of advanced economies. For example, in 2008, OECD countries spent on average around 6% of their GDP on health.<sup>25</sup>

Together with Japan, South Korea and Singapore, Hong Kong’s old-age dependency ratio<sup>26</sup> is amongst the highest among 14 Asian economies and it is projected to rise as the population aged<sup>27</sup> as a result of low birth rates and people living longer.<sup>28</sup> Hong Kong’s total fertility rate (TFR) in 2006 was equal to 1.0, well below the Asian average of 2.2 (calculated for 22 countries) and the average across OECD countries of 1.6.<sup>29</sup> Hong Kong’s rapidly ageing population is likely to pose a serious challenge to the health care system in the not too distant future, and public expenditure on health will continue to rise. The government estimated that average medical benefits allocated to households have increased by almost 25% from 1996 to 2006, mainly because of population ageing.<sup>30</sup>

24 World Health Organization, online country health information profiles, <http://www.wpro.who.int/countries/hok/2010/HOK.htm>

25 OECD (2011), *Society at a Glance 2010*, Paris: OECD Publishing.

26 The old-age dependency ratio is the number of individuals aged 65 and over relative to the population aged 20 to 64.

27 United Nations (2007), “World Population Prospects”, <http://www.un.org/esa/population/publications/worldfertility2007/worldfertility2007.htm>

28 OECD (2009), *Society at a Glance – Asia / Pacific Edition*, Paris: OECD Publishing.

29 World Bank (2008), “World Development Indicators”, <http://data.worldbank.org>

30 Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

### 3.1.3 Housing

Hong Kong's housing policy is tied to its land policy, which is a complex subject beyond the scope of this paper.<sup>31</sup> Suffice it to say here that 47.9% of the population live in publicly subsidised flats, of which there are two kinds – public rental housing (29.9%) accommodating about 2 million people, and publicly built housing for sale under various schemes (18%).<sup>32</sup> Public rental housing is provided to families in need who cannot afford adequate private accommodation, and there is currently a queue of 150,000 applicants on the waiting list.<sup>33</sup> Public housing rents are set by law and this subsidy represents significant support to low-income households. Subsidised sale flats are sold at a discounted rate.

Households living in subsidised sale flats usually belong to the middle of the income distribution. In 2006, the majority of them were found in the 6<sup>th</sup> to 8<sup>th</sup> income decile groups. The picture was different for households living in public rental flats. For this group, the income distribution was much more concentrated in the lower decile groups. Public housing is built and managed by the Housing Authority and the Housing Society.

### 3.1.4 Pensions

Hong Kong has implemented a mandatory, privately managed contributory scheme called the Mandatory Provident Fund Scheme (MPF) since December 2000. Unlike OECD countries Hong Kong's pension scheme does not have a redistribution element with universal coverage in addition to an insurance element. It is a mandatory saving scheme for the working population aged between 18 and 65.<sup>34</sup> Mandatory contributions must amount to at least 10% of the employee's income, with the employer and employee each contributing 5%. Self-employed workers contribute 5% of their income. Employees earning less than a threshold are not required to contribute but employers still have to. Contributions from both employee and employer are capped at HK\$1,000 per month.

The government only regulates and supervises through the statutory Mandatory Provident Fund Scheme Authority (MPFA), while the schemes are operated and managed by private financial institutions. Since the MPF is a privately managed scheme, risks on investment returns are entirely born by the scheme members. In 2008, only one quarter of MPF members had chosen cautious schemes targeted at capital preservation.<sup>35</sup> The pension a retiree will get is entirely dependent on the amount of contributions he has made and the investment returns accumulated.

31 Latter, T. (2009), "Shaping a Budget Strategy for Hong Kong", and Nissim, R. (2009), "A Fresh Look at Housing, Planning and Land Policy", in *Hong Kong's Budget: Challenges and Solutions for the Longer Term* Hong Kong: Civic Exchange.

32 Census and Statistics Department (2011), *Hong Kong: The Facts - Population*, Hong Kong: HKSAR Government. Figures refer to the 'land-based non-institutional population of Hong Kong'.

33 Housing Authority, on public rental housing, <http://www.housingauthority.gov.hk>, and Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

34 Some groups like domestic workers, expatriates with overseas retirement plans or employees such as teachers or civil servants already covered by statutory pension schemes can be exempted from participation. By December 2009, around 71% of employees had joined MPF schemes.

35 Tsoi Kcon-wah (2002), "Poverty Eradication and Social Security in Hong Kong", in D. L. T. Shek, L. M. Chow, A. C. Fai, and J. J. Lee, eds., *Advances in Social Welfare in Hong Kong*, Hong Kong: The Chinese University of Hong Kong.

Finally, the government guarantees neither a minimum return on MPF schemes nor a minimum pension for scheme members with relatively short contribution histories. For reasons noted in this section, the MPF will not provide sufficient retirement protection for the majority of low income households.

## 3.2 The share of public social spending is relatively low

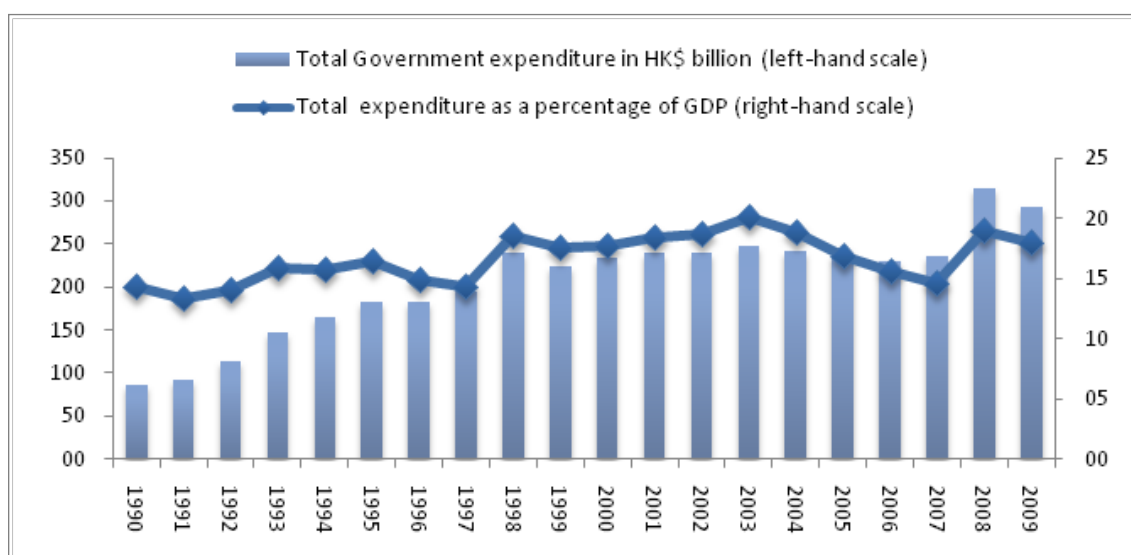
General government social spending has increased over the last two decades but remains well below the OECD average. Hence, not surprisingly, the share of public social spending to GDP is also low by comparison although Hong Kong is above the Asian average.

### 3.2.1 General government spending has increased

Total government social spending increased from 14.3% of GDP in 1990 to 17.8% in 2009 (Figure 5). This share had been on a downward trend since 2004 but increased by a sizeable margin in 2008.<sup>36</sup> As Figure 5 shows however, total expenditure started decreasing again in 2009. With expenditures not reaching 20% of GDP, Hong Kong stands well below OECD average, which was slightly above 40% in 2008.

**Figure 5**

An upward trend in government spending, 1990-2009



Sources: Asian Development Bank key indicators for Asia and the Pacific 2010: <http://www.adb.org/Statistics>; Hong Kong SAR Census and Statistics Department, <http://www.censtatd.gov.hk/home>; data on total government spending, general revenue account and funds.

In 2009, total public expenditure amounted to HK\$307 billion.<sup>37</sup> Public expenditure on social welfare reached HK\$40.4 billion, making up 13% of the total public expenditure and ranking third after Education and Infrastructure, which took up respectively 19% and 15%. Expenditure on Health amounted to 13% of total public expenditure that year, and expenditure on Housing was 5% (Figure 6).<sup>38</sup>

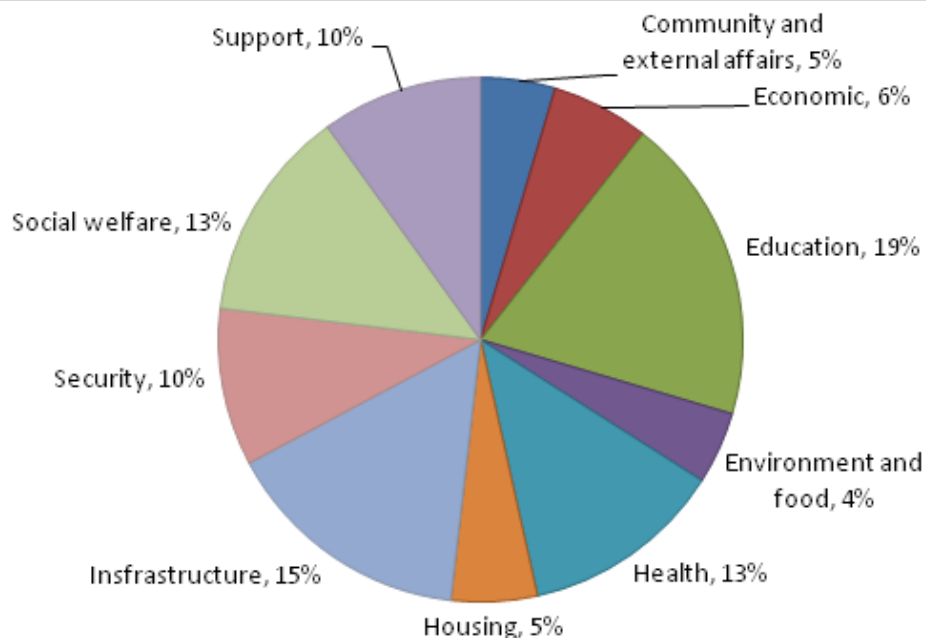
<sup>36</sup> The financial year runs from 1 April to 31 March, hence for example when we mention the year 2009, it corresponds to the financial year 2009/10 that ended in March 2010.

<sup>37</sup> Total public expenditure comprises government expenditure plus expenditure by the Trading Fund and the Housing Authority.

<sup>38</sup> The classification of spending by function differs slightly from the one used in Figure 7 since the data source used is different.

**Figure 6**

Public Expenditure (1)  
by Policy Area Group,  
2009/-2010



*Note:* (1) Public expenditure comprises government expenditure plus expenditure by the Trading Funds and the Housing Authority. It does not include expenditure by those organisations, including statutory organisations, in which the government has only an equity position; such as the Airport and the Mass Transit Railway Corporation Limited.

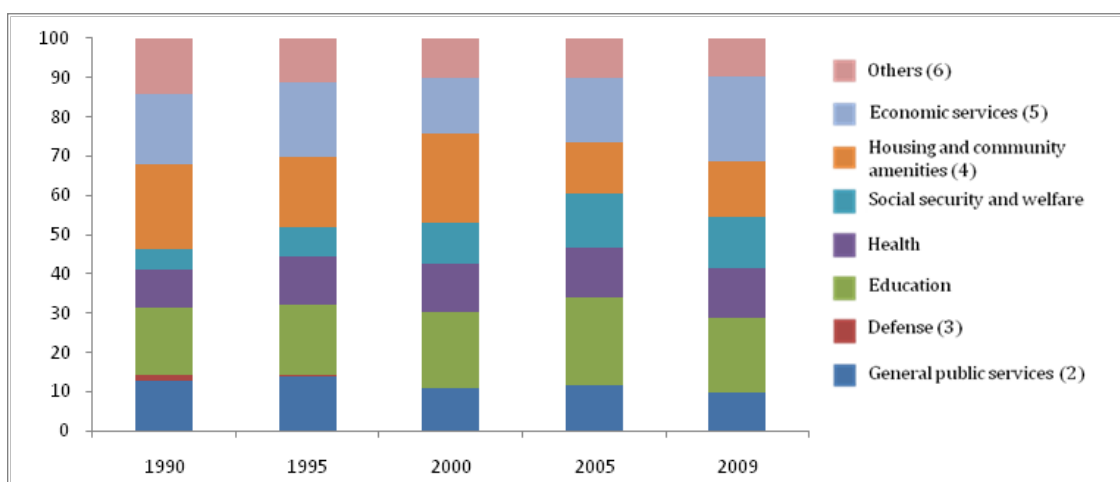
*Source:* Census and Statistics Department (2011), *Hong Kong in Figures*, Hong Kong: HKSAR Government.

Public spending on “Social Security and Welfare” increased from 0.9% of GDP in 1990 to 2.5% in 2009, while spending on “Education” increased from 2.8% of GDP to 3.6%. Public spending on “Health”, “General Public Services” and “Security” each oscillated around 2% of GDP over the same period, while spending on “Housing and Community Amenities” and on “Economic Services” has been more erratic.

Since 1990, the share of public expenditure allocated to social security and welfare has almost tripled while the share spend on housing has been cut by one third (Figure 7).

**Figure 7**

Public Expenditure  
(1) by function, in  
percentage of total  
public expenditure,  
selected years



*Notes:* (1) Public expenditure comprises government expenditure plus expenditure by the Trading Funds and the Housing Authority.  
(2) Refers to the policy area group “Support”.  
(3) Defense is no longer applicable after the establishment of the Hong Kong Special Administrative Region on 1 July 1997.  
(4) Refers to policy areas “Housing”, “Community and External Affairs” and

“Environment and Food”.

(5) Includes agriculture, industry, electricity, gas and water, transport and communications and other economic services – in policy areas such as: “Employment and Labour”, “Financial Services”, “Information Technology and Broadcasting”, “Manpower Development”, “Public Safety”, “Travel and Tourism”, “Buildings”, “Lands and Planning”.

(6) Refers to the Policy area group “Security”.

Source: Asian Development Bank key indicators for Asia and the Pacific 2010: <http://www.adb.org/Statistics>

### 3.2.2 The share of public social spending is relatively low

When compared with OECD countries, Hong Kong’s aggregate social spending is low. When adding up spending on social welfare, housing and health, we see that Hong Kong allocated about 30% of its public spending on these services (Figure 6) amounting to HK\$95.1 billion or 5.7% of GDP. In 2007, public social expenditure averaged 19% of GDP across OECD countries.<sup>39</sup>

The ratio of social spending to GDP varies significantly across Asian countries ranging from 16% in Japan to below 2% of GDP in Laos, Cambodia, Pakistan and Indonesia. Hong Kong’s social spending as a share of GDP stands somewhat over mainland China’s (4.6%) and the Asian average of 4.8%.<sup>40</sup>

While definitions and criteria used to measure aggregate social spending vary, the large differences between Hong Kong and OECD countries, and comparisons with Asian economies, nonetheless offer useful reflections that Hong Kong’s case is quite unique for a very wealthy society.<sup>41</sup>

## 3.3 Impact of tax and benefits on income inequality

Hong Kong’s “social safety net” includes benefits in cash and in kind. Public services tend to benefit lower-income households more. In addition, taxes are mostly collected from the higher-income groups. Nevertheless, this income redistribution mechanism has not been able to deal with rising income disparity in Hong Kong.

### 3.3.1 Redistribution through benefits and taxes

The Census and Statistics Department evaluated the effect of taxation (salaries tax, property tax, rates and government rent) and social benefits (such as education, housing and health) on household income distribution.<sup>42</sup> On average between 1996 and 2006, taxes lowered household income by 6% to 7%. In 2006, the lowest and highest decile groups were the most affected by taxation. Taxation reduced their average incomes by 10.1% and 11.1% respectively. Hence, there is a positive effect of taxation on income redistribution, albeit a rather small one. In 2006, the Gini coefficient calculated on post-tax monthly household income stood at 0.521 compared with a Gini coefficient averaging 0.533 when calculated on original monthly household income, i.e. a decrease by 0.012 point (Annex A2).

39 OECD Social Expenditure Database, 2010.

40 OECD (2009), *Society at a Glance – Asia / Pacific Edition*, Paris: OECD Publishing. Calculations made by the Asian Development Bank (ADB) include 15 Asian countries.

41 Definition and criteria used to measure aggregate social spending vary significantly across Asian countries, the proxy we used for Hong Kong and the calculation made by the OECD, so data need to be considered carefully since they may not be fully comparable.

42 Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

Between 1996 and 2006, the effect of benefits was higher among lower income groups. The 2006 Gini coefficient calculated on income after tax and social transfers is further reduced by 0.046 point and stood at 0.475. Thus, social benefits exert an additional redistributive impact by further narrowing down the income distribution. Their redistributive impact appears greater than for taxes. Indeed, as in the majority of OECD countries the redistribution achieved by public cash transfers is generally larger than that achieved by household taxes.<sup>43</sup> In total in 2006, taxes and benefits reduced the Gini coefficient by almost 11%, corresponding to a 0.058 point decrease (Table 3 and Figure 8).

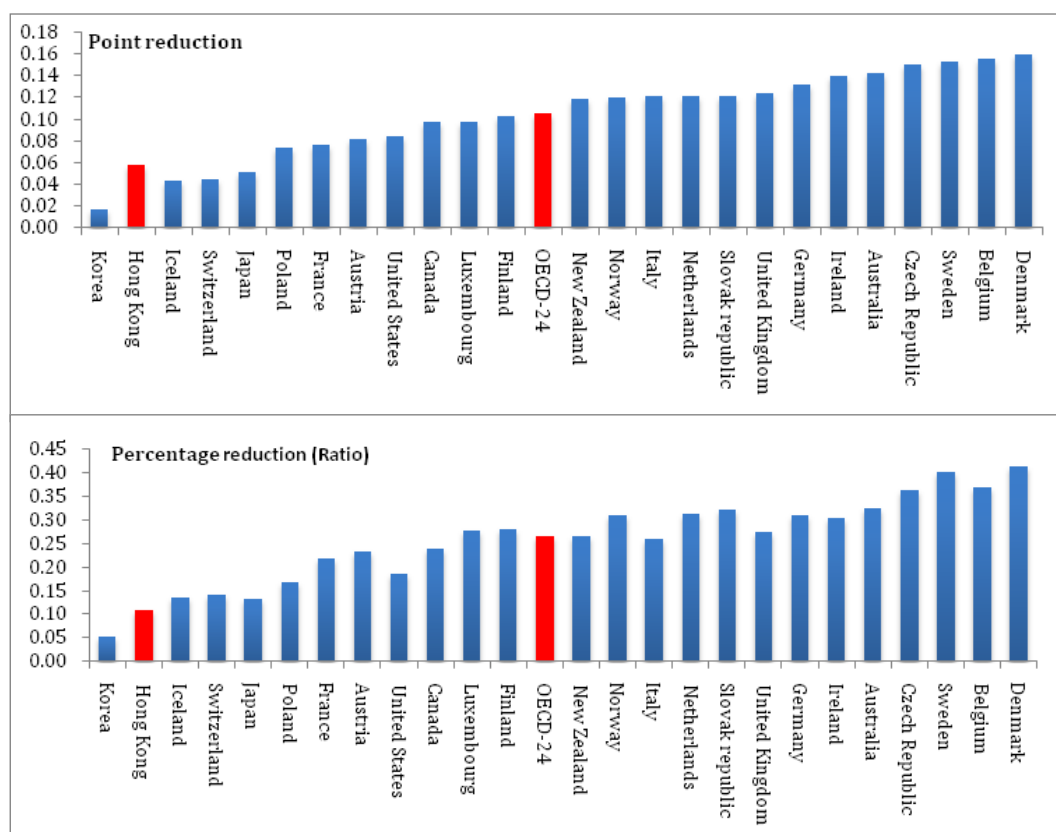
### 3.3.2 Small reduction in income inequality

Figure 8 shows that on average across 24 OECD countries, the tax and transfer systems lower income inequality by around one-fourth (i.e. around 0.15 Gini point). In Hong Kong, the redistributive impact of the tax and transfer system is significantly smaller, only around one-tenth (i.e. around 0.06 Gini point). Among OECD countries, declines range from around 40% in Denmark and Sweden, to less than 8% in South Korea. With 11% reduction in income inequality through redistribution, Hong Kong stands at the lower end of the OECD ranking. The low level of social spending and the low level of taxation of the top income quintile are key factors that limit redistribution. Usually countries that redistribute mostly by public cash transfers achieve a more narrow distribution of final income and countries in which social programmes are more targeted at the poorest tend to spend less than others.<sup>44</sup>

**Figure 8**

Differences in income inequality before/after taxes and transfers in Hong Kong and the OECD

Difference in Gini coefficients around 2005



Note: Ratio of pre-taxes and transfers Gini coefficient to post-taxes and transfers Gini coefficient and point reduction.

Source: For OECD countries: OECD income questionnaire and OECD (2008), *Growing Unequal?*, Paris: OECD Publishing. For Hong Kong SAR: 2006 Population by-census, Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

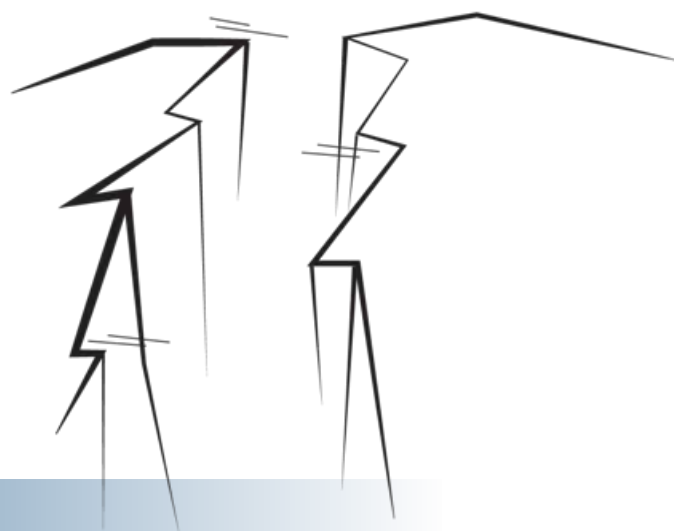
43 OECD (2008), *Growing Unequal?*, Paris: OECD Publishing.

44 Ibid.



# 4

## FACTORS BEHIND THE INCOME GAP



### 4.1 What drives the increasing income gap?

Hong Kong's relatively high income inequality (as measured by the Gini coefficient) partly relates to the relatively low level of government intervention in helping the poorest fringe of the population. However, causes of the widening of income distribution are found elsewhere and are closely related to a range of socio-economic factors.

#### 4.1.1 *Structural change in the economy: a shift in demand towards high-skilled workers*

In the face of globalisation and China's rapid economic development, Hong Kong, being a small open economy, has been shifting towards knowledge-based and high value-added services since the 1990s. In the past two decades, "wholesale, retail and import/export trades, restaurants and hotels" and "community, social and personal services" have been the two largest employment sectors. Their combined share of the labour market increased by 15% from 1996 to 2006, expanding from 47% to 54%. The share of the working population in "financing, insurance, real estate and business services" also increased by 27%. On the contrary there has been a sharp decline of 50% in manufacturing. This trend will likely continue (Table 5).

Loss of manufacturing jobs resulted from reallocation of manufacturing industries to the mainland and neighbouring Asian countries where labour and land costs are lower.<sup>45</sup> As in many advanced economies, globalisation and skill-biased technical change led to a shift from manufacturing, which offered employment to low-skilled workers, to high-skilled service sectors.<sup>46</sup> While high-skilled workers earn more, low-skilled workers face even lower pay and unstable job conditions resulting in wider income

45 Tsoi Kcon-wah (2002), "Poverty Eradication and Social Security in Hong Kong", in D. L. T. Shek, L. M. Chow, A. C. Fai, and J. J. Lee, eds., *Advances in Social Welfare in Hong Kong*, Hong Kong: The Chinese University of Hong Kong.

46 OECD (2008), *Growing Unequal?*, Paris: OECD Publishing.

disparity between these groups. Annex A3 shows that the median monthly income in “community, social and personal services” dropped by almost 9% from 1996 to 2006 while median income in “financing, social and personal services” increased slightly.

Furthermore, the income distribution as measured by the Gini coefficient tends to be more uneven among “financing, insurance, real estate and business services” and “community, social and personal services”; two industries that have seen their share in employment increase significantly. The Gini coefficients in those two sectors averaged 0.544 and 0.532 respectively compared with an overall coefficient of 0.5 (Table 5).

Finally, whereas earnings from lower educated workers gradually decrease when they reach middle age, those from higher educated workers continue to increase. From a life cycle perspective, income disparity increases with the ageing of Hong Kong’s population.

**Table 5**

Distribution of the working population and earning inequalities across industries

Working population (percentage share) and Gini coefficient (1) by industry, 1996, 2001 and 2006

Industry	1996		2001		2006	
	Share	Gini Coefficient	Share	Gini Coefficient	Share	Gini Coefficient
Manufacturing	18.9	0.461	12.3	0.447	9.7	0.481
Construction	8.1	0.389	7.6	0.346	6.8	0.362
Wholesale, retail and import/export trades, restaurants and hotels	24.9	0.447	26.2	0.440	27.2	0.456
Transport, storage and communications	10.9	0.397	11.3	0.405	11.6	0.404
Financing, insurance, real estate and business services	13.4	0.552	16.1	0.532	17.0	0.544
Community, social and personal services	22.3	0.501	25.5	0.529	26.9	0.532
Others	1.5	0.519	1.0	0.518	0.8	0.576
<b>Total / Overall</b>	<b>100.0</b>	<b>0.483</b>	<b>100.0</b>	<b>0.488</b>	<b>100.0</b>	<b>0.5</b>

- Notes: (1) Gini coefficient based on monthly income from main employment.  
 (2) “Others” includes industries such as “Agriculture and fishing”, “Mining and quarrying”, “Electricity, gas and water” and industrial activities not classified.  
 (3) The figures on Gini coefficients exclude unpaid family workers.

Source: 2006 Population by-census, Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

#### 4.1.2 Demographic trends

Demographic change is another contributing factor to the overall picture. While population ageing is a factor, the increased participation of women in the labour force (their labour force participation rate was around 52% in 2010), improvement in educational attainment of various groups, and the change in family structure towards smaller households and single-adult households also play a significant role in increased income disparity.

The average household size has declined from 3.3 persons in 1996 to 3 persons in 2006 and 2.9 in 2009. The government’s projection is that household size will be reduced to 2.7 persons by 2029.<sup>47</sup> As household income depends on the number of working members, fewer household members result in lower household income. Moreover, there has been a large increase in the number of small-sized households comprising only of members aged 65 or more, whose incomes are generally rather low.<sup>48</sup> These households, mostly composed of retirees, live on savings and may receive

<sup>47</sup> Census and Statistics Department (2011), *Hong Kong Monthly Digest of Statistics, January 2011*, Hong Kong: HKSAR Government.

<sup>48</sup> Census and Statistics Department (2007), *Thematic report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

financial assistance from family members not living with them or benefit from some public assistance.<sup>49</sup> All in all, it implies a growing proportion of households with one or no income earners, which brings about greater income dispersion.

## 4.2 Recent government response

The HKSAR Government appears to be tolerant of inequality. However, with increased public awareness of inequalities and widespread social dissatisfaction, government officials have acknowledged that there is a wide income gap and proposed a range of initiatives to deal with the issue.

### 4.2.1 Recent initiatives

In 2010, the Chief Executive announced the creation of a new Community Care Fund to “support people in need in areas not covered by the Comprehensive Social Security Assistance Scheme”. The HKSAR Government would put in HK\$5 billion and the business sector was encouraged to contribute HK\$5 billion. The fund was not without controversy, as arguably, a better alternative would have been to pinpoint CSSA inefficiencies and fill them using government funding.

The HKSAR Government implemented the first minimum hourly wage in May 2011. The minimum wage has been set at HK\$28 per hour. This level supposedly corresponds to between 40% and 50% of the average hourly wage. According to the responsible officials, 315,000 workers should benefit from an average of a 16.9% wage increase. On the other hand, some low-skilled workers may lose their jobs. The Provisional Minimum Wage Commission estimated there could be 40,000 lay-offs.

The Work Incentive Transport Subsidy has been extended to cover 18 districts. This subsidy aims at giving low-paid workers a monthly allowance of up to HK\$600. The total cost of this scheme amounts to HK\$4.8 billion.

### 4.2.2 Budget giveaways

Hong Kong is a city of plenty with large reserves. Hong Kong has enjoyed financial surpluses for seven consecutive years. The annual revenue level increased by 53.5% from 2003/04 to 2009/10, while annual spending rose by only 16.8%. According to the city’s accrual accounts, the HKSAR Government’s net assets stood at over HK\$1.2 trillion as of March 2010.<sup>50</sup>

Since 2008, there have been five rounds of fiscal stimulus worth HK\$855 billion, equivalent to 6.6% of GDP, to fight the global financial crisis. A key feature of Hong Kong’s initiatives were one-off reliefs targeted at the most deprived groups, such as extra payments of old age and disability allowances, rental waivers for public housing tenants and waivers in rates and electricity bills plus some selected tax rebates.

<sup>49</sup> Commission on Poverty (2007), *Understanding Poverty*, Hong Kong: HKSAR Government.

<sup>50</sup> For the previous financial year, HKSAR’s financial reserves in accrual-based accounting amounted to HK\$1.233 trillion. This information is available at the Treasury website, [http://www.try.gov.hk/internet/eharch\\_annu\\_accr0310.html#p](http://www.try.gov.hk/internet/eharch_annu_accr0310.html#p)

The 2011 Budget was the most expansionary for years, delivered at a time when inflation was rising. The Financial Secretary gave an electricity subsidy to households (HK\$4.7 billion); a capped property rate exemption for home owners (HK\$9.9 billion); a two-month waiver for public housing rents (HK\$1.9 billion); extra allowances for CSSA, old age and disability allowance recipients (HK\$1.9 billion); and increased tax exemptions for carers of dependent parents, grandparents, and children (HK\$1.22 billion). The most controversial proposal was to inject HK\$6,000 into every Mandatory Provident Fund account (HK\$24 billion), which proved unpopular. The Financial Secretary put forward another controversial proposal – to pay the HK\$6,000 in cash to every adult permanent resident (HK\$36 billion). The government is still considering how to make payments as of early June 2011.

Nevertheless, there is still a need for more ambitious long-term social policies in order to alleviate poverty and tackle the issue of growing inequality. Also few of the measures announced in this year's budget are clearly targeted at the poor and most vulnerable groups.

# 5

## CONCLUSION

There is an urgent need to do more to fight poverty and Hong Kong has the financial means to do so. Overall social spending remains low by international comparison, even though Hong Kong has seen the earnings from the poorest population group decrease in recent years and income disparity is very high and increasing.

Social policy needs to take into consideration Hong Kong's most vulnerable groups for whom poverty is the greatest concern. Among them are the working poor, the poor elderly, people with disabilities and special needs, and children from low-income families. The one-off reliefs are short-term measures to provide immediate assistance. Introducing a minimum wage law is a first step in ensuring that work pays and in improving the living standards of poor households, provided that it is enforced and that its level is revised according to price inflation. But clearly more long-term policies are needed to alleviate poverty and tackle the growing income gap. This means that the HKSAR Government cannot avoid the issue of increasing recurrent expenditure.

## Annex A1

Average Monthly CSSA Payments by Number of Eligible Members, 1999/2000 to 2009/10

Number of eligible members	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
1	3 746	3 854	3 778	3 751	3 623	3 503	3 477	3 487	3 540	3 623	3 884
2	6 253	6 282	6 319	6 262	5 982	5 817	5 798	5 798	5 910	5 884	6 219
3	8 387	8 588	8 482	8 342	7 831	7 727	7 779	7 809	7 993	7 831	8 240
4	10 083	10 199	10 015	9 783	9 178	9 068	9 172	9 236	9 491	9 244	9 738
5	11 614	11 946	11 587	11 427	10 827	10 756	10 896	10 968	11 259	10 893	11 462
6+	14 535	14 637	14 368	14 228	13 483	13 430	13 646	13 771	14 063	13 668	14 282

*Notes:* Figures refer to the amount of CSSA payment when the recipient does not have other income. One-off payments issued on several years are not included in those figures.

*Source:* Census and Statistics Department (2010), "Statistics on Comprehensive Social Security Assistance Scheme 1999 to 2009", in *Hong Kong Monthly Digest of Statistics September 2010*, Hong Kong: HKSAR Government.

## Annex A2

Distribution of Original Monthly Household Income and Post-tax Post-social Transfer Monthly Household Income by Decile Group, 1996, 2001 and 2006

Decile group	Original Monthly Household Income			Post-tax Post-social Transfer Monthly Household Income		
	1996	2001	2006	1996	2001	2006
1 (lowest)	1.1%	0.9%	0.8%	1.4%	1.1%	1.1%
2	2.6%	2.3%	2.1%	3.2%	2.9%	2.7%
3	3.6%	3.4%	3.2%	4.3%	4.2%	4.0%
4	4.6%	4.4%	4.3%	5.4%	5.4%	5.3%
5	5.7%	5.6%	5.5%	6.5%	6.5%	6.5%
6	7.0%	7.0%	7.0%	7.6%	7.8%	7.8%
7	8.5%	8.8%	8.8%	9.1%	9.4%	9.4%
8	10.6%	11.1%	11.3%	11.1%	11.5%	11.7%
9	14.5%	15.3%	15.6%	14.3%	15.1%	15.3%
10 (highest)	41.8%	41.2%	41.4%	37.1%	36.2%	36.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gini Coefficient	0.518	0.525	0.533	0.466	0.47	0.475

*Source:* 2006 Population By-census, Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.

## Annex A3

Working Population and Median Monthly Income from Main Employment by Industry, 1996, 2001 and 2006

Industry	1996		2001		2006	
	Number	Income (HK\$)	Number	Income (HK\$)	Number	Income (HK\$)
Manufacturing	574 867	8 600	400 952	10 500	325 066	10 500
Construction	245 440	9 000	247 883	10 000	230 227	10 000
Wholesale, retail and import/export trades, restaurants and hotels	757 239	8 600	852 619	9 800	916 217	9 500
Transport, storage and communications	330 974	9 800	366 312	10 500	391 285	10 000
Financing, insurance, real estate and business services	408 686	12 000	522 822	14 000	571 378	12 500
Community, social and personal services	680 048	9 300	829 720	10 000	905 425	8 500
Others	46 444	10 000	32 398	12 500	26 138	11 500
Total / Overall	3 043 698	9 500	3 252 706	10 000	3 365 736	10 000

*Notes:* "Others" includes industries such as "Agriculture and fishing", "Mining and quarrying", "Electricity, gas and water" and industrial activities not classified. The income figures exclude unpaid family workers.

*Source:* 2006 Population By-census, Census and Statistics Department (2007), *Thematic Report: Household Income Distribution in Hong Kong*, Hong Kong: HKSAR Government.



Room 701, Hoseinee House  
69 Wyndham Street, Central  
Hong Kong

[www.civic-exchange.org](http://www.civic-exchange.org)