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# Poverty in the Midst of Affluence

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# Findings

- SARG reduced its commitments to social services/housing, hoping to shift responsibility for their provision from community to families.
- The average family's resources did not improve sufficiently 2000-10 to finance this additional burden, aggravated by an ageing population.
- The average family is worse off than in 2000.
- Economic and fiscal crises did not necessitate the adoption of the new policies, whose adverse consequences were foreseeable.

# How Policy Creates Poverty

- The New Poverty: Why poverty is a serious challenge in this prosperous and stable society.
- Economic Mismanagement: How the SARG created the economic crisis which led to social service cuts.
- Government-Business Interface: How far does business control government.
- The Political Context: Why the SARG cannot ignore poverty even though not a political issue.

# The New Poverty

# Respectable Preconceptions

- **The unemployed:** if CSSA is too easy to get, ordinary people will not look for work
- **Education:** parents should sacrifice to pay for DSS school and university places as an investment in the children's future
- **The disabled/elderly:** Chinese families should take care of their own
- **Competition law:** this is a free economy; no one is forced to shop at supermarkets or buy a new flat.

# Welfare: A Waste of Money

Hong Kong government and business leaders deny that the state can help the poor:

- “The Government must never try to assist the poor using its own resources, for this is doomed to failure...I do not buy the idea of assisting the poor by giving them financial [help]. ” (CE (Tsang Yam-kuen) *LegCo* 27/06/05)
- “Providing financial assistance is not the best way to lift people out of poverty.” (FS (Henry Tang Ying-yen) *LegCo* 16/03/05)
- “I always think that eradication of poverty is an unrealistic objective.” (Selina Chow, Exco/LegCo Member, *LegCo* 15/02/06)

# The \$10,000-a-month Myth: 1998 CSSA Review

- Welfare removes incentive to work, e.g.:
  - 2 parents (jobless), 2 students. Monthly benefits \$11,321. Only better off on CSSA if both parents had worked as sanitary cleaners.
- Larger families need less benefits:
  - 2 parents (jobless), grandparent, teenage student and 21-year-old son with cancer. Monthly benefits to fall by 5% to \$13,081.

1998: Average Hong Kong monthly wage  
\$10,000, household income \$18,000

# How do the Poor Survive?

Unemployed NOT  
receiving CSSA

–2000: 86%

–2005: 79%

–2010: 78%

Low-waged NOT  
receiving CSSA

–2000: 91%

–2005: 81%

–2010: 78%

# Housing 2000-2010

- Government spending on housing: DOWN 57%
- Price of flats: UP 68%
- Rent of flats: UP 22%

# Patients must Pay

From 2001, Hospital Authority no longer given funding to provide patients free of charge with:

- Pacemakers
- Interferon for hepatitis, chronic myeloid leukemia and multiple sclerosis
- Growth hormone for children with growth retardation
- Taxane, letrozole and anastrozole for breast cancer (E K Yeoh, SHW, *LegCo*, 9/05/01)

# Hospital Budgets Cut

- CE 2005: “There has been no deterioration of service quality”. (*LegCo 27/06/05*)
- HA public statements:
  - “Limitation of resources” means that “quality started to be compromised”. (2005)
  - Inadequate funds for “new technologies and pharmaceuticals... [and] equipment”. (2007)
  - Queues continue to worsen for all specialties, particularly surgical. (2008)
  - HA beds decreased 8% 2000-2010.

# The Disabled Wait Forever

- Waiting times for residential care:
  - severe mental: 52 months
  - severe physical: 113 months
  - severe (care & attention home):  
36 months
- Sheltered workshops: 14 months
- Pre-school for special needs children:  
8-12 months

# Expensive Education

- DSS schools allowed to charge up to \$70,000 annual fees since 2000 .
- International schools now charge annual fees of \$100,000 to \$180,000.
- 34% of students in public sector cannot afford to pay the full fees and charges.

# Hopeless Futures

- A CPU (CU 2010) survey reported that the “80s generation” have:
- the best educational qualifications ever,
- the worst employment opportunities,
- the worst career prospects,
- but are not more politically “radical” than older groups.

# How do Families Cope?

	2001	2006	2011
Average household size	3.1	3.0	2.9
Average monthly income per household	\$18,710	\$17,250	\$20,500
Average monthly earnings per person	\$10,000	\$10,000	\$11,000

# The One-Child Family Crisis

Average Hong Kong family has one child, two working parents.

- Average family has little time for parenting
- Average family income cannot cover rising costs of best education and good housing.
- Average family cannot provide full-time care for elderly or pay their full medical costs.

# SARG: In Denial

Officials tried to deny the data on poverty – despite overwhelming evidence.

- 2004: Income inequality in Hong Kong said to be “the worst among developed nations”.

(Zhao 2004)

- 2004: SHW: “Since there is no agreed definition, there can be no agreed measurement of poverty”. (Dr E K Yeoh, *LegCo*,

5/02/04)

# SARG: Still in Denial

- 2005: Commission on Poverty: 1.03 million  
- 15 % of the population - lived in poverty.

(CoP Paper 14/2006, July 2006)

- 2011: “In a free, open and mature capitalist economy, the wealth gap can hardly be eradicated...The wealth gap has become a structural cause of social tension.”. (CE *Policy*

*Address* 2011)

# Cause to Complain but No Unrest

- Public dissatisfaction with SARG's performance:  
2005: 35%    2010: 57%
- But labour unrest and crime rates have fallen.
  - Total days lost thro' strikes:  
2000: 934    2010: 328
  - Total crime per 1000 population:  
2000: 11.6    2010: 10.8
  - Juvenile crime (% of all crime):  
2000: 14%    2010: 9%

# Economic Mismanagement

# Self-inflicted Crisis, 1998-2003

Social service and public housing cuts were presented as the unavoidable outcome of the Asian financial crisis.

- Hong Kong's 1998 recession followed the slump in public and business confidence when satisfaction with SARG performance fell to record lows. (*G/S*, 03/08/98)

- CE: "It would have been easier ... to ease back into another bubble economy...with Keynesian fiscal and monetary stimulus" My way will "take longer...imparts more pain in the short term...but is ultimately healthier". (*G/S*, 10/08/00)

- GDP fell 23% with "job losses and reduced income" for 90% of families. (CE *G/S*, 04/12/04, 29/05/04)

# Erroneous Economics

- The first CE claimed recession was inevitable because “for years ... our competitiveness has gradually lagged behind that of our competitors”.  
(CE, *GIS*, 07/12/98)
- This claim was false:
  - 1990: world’s 10th largest trading centre;
  - 1995: world’s 7th largest trading centre (C&SD, *A Comparison...* p. 30.)
  - 1984-97: export prices rose less than inflation overseas and locally. (Deputy CE HKMA, *GIS*, 04/12/97)

# Shock-Proof Economy

Annual Real GDP Growth

1961-1997: 7% (unbroken)

2000-10: 4.9%

- Leading international financial centre:
  - 71 of the world's 100 largest banks
  - 1<sup>st</sup> for IPOs (equity raised)
  - 7<sup>th</sup> by market cap (2<sup>nd</sup> in Asia)
  - 7<sup>th</sup> in forex trading
  - 4<sup>th</sup> FDI inflows (2<sup>nd</sup> in Asia)
  - 1993-10: 595 Mainland IPOs (US\$384 bn)

# High-quality, Low-cost Employees

Labour productivity 2000-10: +3% p.a.

	2000	2010
Average monthly earnings	\$10,000	\$11,000
Percentage of labour force earning less than \$5,000	12%	13%

# Sustained Role in PRC Economy:

- 2000: V Chair Li Ruihan: “Without Hong Kong, China’s mainland could not access the global market ...in the past 20 years”.
- 2002: PM Zhu: Hong Kong “plays a unique, irreplaceable role in China's modernization”.
- 2009: PM Wen: “I have said years ago that [Hong Kong] is irreplaceable”.
- 2011: V PM Li: “Hong Kong has played an irreplaceable role in China's reform, opening-up and modernization”.

# SARG: No Shortage of Cash

Total net assets 2011: \$1,230 bn

	2000	2011
Total budget reserves	\$430bn	\$662bn
Total budget spending	\$233bn	\$366bn
Months spending covered	22	22

# Government-Business Interface

# Past Government-Business Ties

- 1950-80: Officials vital to manufacturers' access to Western export markets:
  - 1960s: HKG defended industry against its own ignorance when it demanded import/investment controls and refused to join trade talks. (HKRS270-5-56)
  - Officials acquired deep knowledge of industry: leaders, costs, markets, working conditions
  - Social policies heavily influenced by economic realities and business priorities
  - *Business depended on the trade bureaucracy*

# Profits First, Welfare Second

- 1960: Dr S. Y. Chung to HKG: “Industrialists would not improve working conditions until cheaper land was available...” (HKRS270-5-39)
- 1965: HKG defended industry against HMG demands for 48-hour week which reported as insuperable. Working hours only reduced after HMG removed import levy. (CO1030/1664)
- 1967: Social insurance proposals rejected as “emotional prejudice against employers in general and profits in particular”. (FS HKRS163-9-486)

# Present Government-Business Ties

- SARG responsible for financial stability:
  - strict regulation, especially mortgages,
  - property sector profits curtailed.
- Legally, fiscal reserves' role now to protect financial stability, with constant budget surpluses needed against future crises.
- Only the HKMA CEs have shown understanding of link between public support and efficient policy-making.

# Profits First ...

## Post-industrial, Post-colonial

- SARG reluctance to introduce:
  - comprehensive competition law protects property misselling tactics;
  - MPF reforms is a bankers' benefit scheme;
  - Minimum wage law reduced wages in public as well as private sector for “service” industry workers in post-industrial Hong Kong. Hence wages lag productivity so significantly.

# SARG Resists Competition

- 1990s: Consumer Council showed how lack of competition harmed the public.
- 1997: IMF endorsed these criticisms but its advice was rejected by SARG in 1998.
- 2007: CE's election promises included legal controls on monopolies, price fixing and cartels.
- 2012: Weak law finally agreed.

# SARG Drives Down Wages

- 2004: CE: “We announced a mandatory requirement that government service contractors should pay their non-skilled workers wages not less than the market levels”. ( *GIS*, 29/04/05)
- 2011: SLW: Minimum wage law to benefit 40,000 on “government service contracts”:
  - “at least” \$6,944 for 8 hours a day 6 days a week. “Over half of the workers...would enjoy a pay rise of 20% or above”. (SLW, *GIS*, 11/04/11)
  - Total cost of pay rise: \$700 million

# The Political Context

# The Invisible Poor

“The idea of ‘aid for the poor’ does not apply to Hong Kong, an affluent society with GDP p.a. of USD24,00 per cap.” (HKEJ 26/01/06)

- Personal experience of hospitals, costs and quality, is limited until old age.
- The middle class is leaving public education and is unaware of how the “average” child is taught.
- The end of the factory era means few middle class people have direct contact with the “average” worker.

# Welfare: NOT a Political Issue

- Welfare issues was not crucial in CE election.
- No major political groups support a “welfare state” or “income redistribution”.
- All the major political parties believe Hong Kong cannot afford free, comprehensive public social services.
- Politics parties’ criticism of smaller public social services and higher fees and charges (eg, schools, hospitals) is limited.

**“Only people-first governance can win full support from citizens”** .( CE, RR, 01/07/05)

- Tung Chee Hwa: “...our failure to establish the vision of ‘people-based’ governance ... ‘thinking what people think’ and ‘addressing people’s pressing needs’ ... We introduced too many reform measures too hastily ... We also lacked ... the experience and capability to cope with political and economic changes.” (HH, 12/01/05)
- Donald Tsang: “People have doubts about certain issues: ... Is the Government trustworthy? Is the Government fair and impartial? Is it less capable than before? Does the Government still adhere to the principle of meritocracy? Does it take into account public opinion in formulating policies?.” (HH, 15/10/08)

# In fear of Populatism

- Senior officials and businessmen mistrust the community.
- 2010: Wu Ying-sheung warned about the "uprising" mastermind by organisers of the "referendum" by-elections.
- 2010: Chan Chichung said Democs are “self-interested... making the government weak... Populism will lead to socialism...Hong Kong will be over if we go for socialism”.
- 2011: CE stated that Ministers have to choose between “a love for Hong Kong and a love for your popularity” – good policies are unpopular.

# Unfounded Fears

- “The great fear in Hong Kong is not taxation without representation, but ‘representation without taxation’ in which the non-taxpaying majority would dictate to the taxpayers”. (Donald Tsang, CE, *Wikileaks*, 10/05/05)
- Pre-1997: no popular expectations of “democracy-led public welfare expansion.” (Wong Chack-kie 1995)
- Support for increased CSSA has fallen:  
2006: 28 % (*HKTP*); 2011: 15% (*HKIAPS*).

# Past Policies Created Current Poverty

- Pension plans were blocked by officials and business leaders:
  - for a CPF in 1967; an OAPS in 1993.
  - As a result, today's elderly have no choice but to live on CSSA.
- Full free schooling 6-16 was not provided until 1978.
  - As a result, workers aged 50+ have grim job prospects through no fault of their own and become long-term unemployed.

# Current Policies Create New Poverty

- Since 2000, the official aim is to reduce the public supply of social services and housing.
- Costs are passed wherever possible to the public (with inadequate exemptions for low-income groups).
- Private sector is encouraged to expand.
- NGOs encouraged to adopt business-style management and partnerships.

# Case Study: The Elderly 1

“An ageing population will lower our standard of living and undermine economic vitality” .(FS (John Tsang) *LegCo* 27/03/08)

- 65+ population increased 30% 2001-11
- Residential care increased 9% 2001-11
- Average waiting time: 42 months

# Case Study: The Elderly 2

- “The rapidly ageing population will bring tremendous challenges...to our elderly and public healthcare services. We must get prepared”. (CE (Donald Tsang) *Policy Address* 2011)
- “Subsidised residential care places” (FS *Budget* 2012)
  - FS had pledged 3,600 more places 2007-12  
Actual increase: 1,635
  - FS pledged 2,600 more places 2011-15  
In fact, 1,965 fill the 2007-12 shortfall  
Only 635 places will be “new”.

# The Confucian Challenge

- Hong Kong is proud of its Chinese culture.
- Officials and business representatives often claim that state help is not needed: “Confucian” families care for their own disabled, unemployed, elderly etc.
- Korea preached Confucianism to cut state welfare. The PRC has ceased to do so.
- Hong Kong’s small families, longer lives, low incomes make state help unavoidable.

# Additional Data and Sources

1. *Uneasy Partners: The Conflict between Public Interest and Private Profit in Hong Kong* (2<sup>nd</sup> edition 2009)
2. *官商同謀 — 香港公義私利的矛盾* (Hong Kong: Enrich Publishing Ltd, 2011)
3. Tony Latter (ed.), *Hong Kong's Budget: Challenges and Solutions for the Longer Term* (Hong Kong: Civic Exchange, 2009)
4. *Profits, Politics and Panics: Hong Kong's Banks and the Making of a Miracle Economy, 1935-1985* (2007)