

POLITICS AND POVERTY IN CASH-RICH HONG KONG

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A quarter of a century ago, the British were busy trying to head off demands for direct elections on the grounds that Hong Kong people had no experience of democracy and little appetite for politics. The fall of 2009 fall saw yet another bid to justify further delays in the introduction of universal suffrage when the city's current rulers launched a fresh campaign to persuade the public to back a revised political reform package. These proposals still do not offer an early date for a directly-elected legislature because of continuing anxiety in Beijing and among Hong Kong officials and business leaders about the social and economic costs of universal suffrage. They fear that democracy will introduce irresistible demands for increased welfare and redistribution of wealth through increased taxation.

By contrast, critics of this latest bid to sell a limited democracy package to the one of the world's most open and sophisticated post-industrial societies focus, almost exclusively, on such basic principles as universal suffrage and direct elections. They offer no promises to squeeze the rich or provide welfare for all, and they would get little thanks from the public if they did. For this city, academic surveys of public opinion have long demonstrated, is convinced of the merits of *laissez faire*, both in managing economic affairs and in social policy.

These polls also show that Hong Kong is a caring community, with the general public troubled by the poverty and neglect that its disadvantaged suffer. Money is not the problem for the government is cash-rich. It runs regular budget surpluses which have created substantial reserves. These are currently equivalent to total public sector spending for 18 months (compared with 15 months in 2006). In addition, there is ample unused tax capacity. The concept of a worldwide income tax is unknown in Hong Kong. No tax is levied either on dividends or capital gains or on profits and earnings generated outside Hong Kong. The maximum tax on profits is 16.5% and on salaries 15%. There is no significant public debt. Access for all to decent housing and adequate social services is an affordable goal for Hong Kong.

Despite the fiscal data, officials insist that unfavorable demographics and a narrow tax base make quality social services unsustainable. The elderly and their needs are

openly depicted as a threat to Hong Kong's well-being. The 2008 Budget Speech forecast that after 2014 "an ageing population will lower our standard of living and undermine economic vitality and competitiveness." Officials have also predicted that "the Government will have to spend well above \$50 on health care services out of every \$100 tax revenue collected by 2033."

In late 2009, Chief Executive Donald Tsang highlighted his administration's discomfort with current spending on those in need. "If we were to maintain welfare-based relief measures on a long-term basis," he said, "We would have to overhaul our tax system and increase tax rates", which he believed the public would find unacceptable. The polling evidence is against him. The community is very willing to contribute to the funding of social services, a Chinese University poll reported in 2009. This survey found that some 60% of the population were ready to pay more tax to finance better social welfare provisions, with 70% of respondents in support of unemployment insurance.

No Wealth Redistribution

Social insurance, however, is repugnant to both the government and business, so that officials have failed repeatedly over the last ten years to devise a formula for health insurance that makes sense to the public. Even more unacceptable is any form of "wealth redistribution", the government declared in 2008, such as raising "a greater proportion of financing from those with higher income to subsidize more the lower income using some form of tax or similar arrangements."

The government's inability to present a comprehensive and convincing financial blueprint for Hong Kong's social services adds to the sense of confusion and crisis among decision-makers. Mainland officials continue to worry that political reforms will lead to higher social spending and damage business, while Hong Kong power-holders warn that a dependency culture is an imminent threat to work ethic and labour productivity. The mistrust reflected in these apprehensions is understandable enough: how can the community be expected to remain uncomplaining and undemanding and free from social envy, given the setbacks suffered by ordinary families over the last ten years? For most people, 1998 brought their first experience of recession, falling wages and persistent unemployment. As 2009 began, household incomes had still not recovered to the 1997 monthly average of US\$2,436. The unemployment rate in mid-2009 was 5.5%, well over twice the 1997 figure.

Previously, real gross domestic product had increased every year without exception since at least 1961. In the current decade, for the first time in 40 years, families could no longer take for granted an improvement in their living standards from one

year to the next, and, after 1998, there was little room for confidence that children would enjoy superior life prospects than their parents. The gap between rich and poor, as measured by the Gini coefficient, worsened significantly during this period, and one academic study claimed that income inequality Hong Kong was “the worst among developed nations.”

Officials, business leaders and academics assumed that the abrupt decline in the community’s fortunes must be followed by a clamour for state help. A joint government-business study in 2000 asserted that past prosperity had created a “get rich quick” mentality and “a dependency culture” among the workforce, and “unrealistic expectations” about government assistance. These allegations have been thoroughly discredited over the last decade, during which labour productivity improved by almost 4% a year even though real wages rose by an annual average of less than 0.5%.

Poverty Forever

Facts and official figures seemed to make no difference, however. Officials continued to join forces with business representatives in the legislature to cut welfare benefits, increase fees and charges for education and medical services and shrink the public housing program. The advocates of rolling back social services began with the assumption that little or nothing could be done to overcome deprivation among the underprivileged. The official responsible for health and welfare services told the community that poverty was an unavoidable experience which “every family” must expect to face. A senior legislator and successful business woman admitted: “I always think that eradication of poverty is an unrealistic objective.” In 2005, the Chief Executive told the people of Hong Kong that it was useless for the government “to assist the poor using its own resources... or [through] increasing tax revenue” or “giving them financial assistance.” That same year, according to an official report, 15% of the total population was living in poverty.

The starting point for these negative attitudes is a conviction that the average member of Hong Kong society would be unable to resist the temptation to exploit the taxpayer if social services expanded. But the government’s own statistics show that this outlook is entirely without factual foundation. A reluctance to rely on government assistance is a defining feature of Hong Kong, and is very evident among those who lose their jobs. Throughout the downturns in the business cycle since 1998, the proportion of the unemployed receiving (means-tested) social security has never exceeded one in four of those out of work. In mid 2009, it was only 16% despite the return of recessionary conditions after the global financial

crisis. The elderly display much the same independent spirit, with only 14% of the over-60s dependent on social security according to an official report in 2009.

This preference for self-reliance is all the more impressive since those worst hit by the economic setbacks of the current decade are hapless victims of the refusal of Hong Kong's former rulers to introduce modern social services until late in the colonial era.

- The introduction of free and compulsory education for first through sixth grades was delayed until 1971 and through ninth grade until 1978. An official 2005 survey of unemployed recipients of welfare benefits found that most of them belonged to age groups that had not had access to free education. Almost 40% had never been to school at all, while only 20% had got beyond grade six.
- From 1967, the British sided with business interests to oppose social insurance, while the introduction of a retirement savings program like Singapore's highly successful Central Provident Fund was blocked until 2000. Not surprisingly, an official 2009 survey of the over-60s reported that less than 20% had managed to qualify for some form of retirement benefit.

The post-colonial era began with high expectations of a better deal for the ordinary family, starting with housing. Shortly after taking office, Tung Chee Hwa, the first Chief Executive, explained that "to me and to the community as a whole, housing is the number one priority." He announced rapid expansion of the public housing programme, and promised to raise home ownership from 50% to 70%. The prospect of such a dramatic increase in supply when the Asian financial crisis was driving down investor confidence led to a collapse of the property market, with prices falling by 70% between 1997 and 2003. Property developers had considerable influence among Mainland officials as well as in the legislature, and they induced the government to curtail construction of public housing for sale and to suspend the supply of new building sites for private development.

No Slippery Slope Allowed

As the initial recession deepened, the case for increased spending on public welfare and health grew more urgent. The fall in demand for labour, for example, made it harder for older workers and individuals with disabilities to find jobs, and applications for social security were bound to rise. Hong Kong also faced serious health threats, most notably the SARS epidemic in 2003, and medical and hospital budgets came under severe pressure. But Tung's long-term housing plan had absorbed so much additional finance in its first two years that he and his team felt

they had no option but to take refuge in austerity measures. “We are NOT going down the slippery slope towards a welfare state,” Tung declared in 2000.

The welfare sector has been hardest-hit by the budget stringency that followed. After 1998, the government stopped preparing regular blueprints for the development of welfare programmes, which identified service needs, set detailed targets and deadlines and gave the public as well as officials the information needed to assess progress. Policy is no longer based on surveying service shortfalls, qualifying the population’s needs and allocating resources to fill the gaps, and the long-term consequences have been tragic for Hong Kong’s most vulnerable groups. Average waiting times for admission to residential facilities, for example, are alarming, Government statistics indicate:

- “severely mentally handicapped persons”, almost seven years (2007 data);
- “severely physically handicapped persons”, almost nine years (2008 data);
- the elderly: nursing homes, 42 months; care-and-attention homes, 32 months (2008 data).

Financial stringency has also hit the quality of medical services. The publicly-funded Hospital Authority, which provides over 90% of the community’s hospital care, regularly reports new instances of falling standards. Its 2005 annual report explained that because of “limitation of resources,” treatment had to be rationed to those with “more urgent conditions”; for other patients, “quality started to be compromised.” In 2008, its annual report recorded that inadequate funding from the government meant “limiting or refusing introduction of new technologies and pharmaceuticals, and delaying the replacement of equipment.”

Education was one service that was not supposed to suffer from the government’s retreat from social responsibility because, a senior official explained in 2008, it represented “long-term investments that enhance the quality and productivity of our population.” Even here, official policies have done little to help less privileged groups even though Tung Chee Hwa had identified education for “a knowledge-based economy” as the ideal way “to reduce inter-generational poverty”. The post-colonial administration introduced programs of radical change for the entire system which would be affordable, the government believed, because parents would contribute to its considerable costs through higher fees.

Parents Are Dismayed

Elitism quickly became a prominent feature of the changing educational landscape although this trend began with the best of motives. The government wanted to

boost the status of Chinese and mother-tongue education. In 1998, it decreed that only 112 of the secondary schools receiving government aid would be permitted to continue to use English in the classrooms; the other 230 would be compelled to switch to Chinese. Parents were dismayed. They saw fluent English as an essential qualification for decent careers in a city as dependent as Hong Kong on international finance and business. Public opposition finally forced officials to retreat from this policy in 2008. The second elitist measure was to allow a minority of secondary schools considerable autonomy in charging fees and designing their own curriculum. Henceforward, the best educational opportunities would be allocated mainly on the basis of the parents' financial resources rather than a student's academic ability.

The political calm and social resilience that Hong Kong's people have displayed in the face of their setbacks since 1998 ought to be enough to reassure Beijing about the maturity the community would bring to a fully democratic selection of the city's chief executive and legislators. The last ten, troubled years should also have provided the business community with compelling proof of this society's attachment to economic self-reliance. What more evidence is needed when even among the elderly and the unemployed – two groups that have a powerful claim to state support – only a small minority become dependent on social security? But perhaps the real worry for the power holders is the possibility that it is not the hope of more generous welfare and less personal responsibility that inspires a majority of the population to consistently support democratic reform.

Quite simply, the public seems convinced that Hong Kong will be better administered with open and accountable government than under the current electoral arrangements, which, for the present power holders, is not a flattering verdict on their record.

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The government reports and statements, official statistics and academic research findings on which this paper relies are discussed in "Social Services: A Hostile Environment," in Tony Latter (ed.), Hong Kong's Budget: Challenges and Solutions for the Longer Term and can be accessed at: http://www.civic-exchange.org/eng/upload/files/200902_budget.pdf

