

# Oxfam Hong Kong Briefing Paper



## Employed, but Poor: Poverty among Employed People in Hong Kong

Amidst a period of economic growth and development in Hong Kong, poverty not only remains, but is on the increase. Amidst the prosperity, the gap between rich and poor people is widening. Amidst talk in our nation of building a harmonious society, and talk in Hong Kong of compassion and of civic values, the facts show that trends are heading in the opposite direction: more and more people are facing marginalisation and discrimination, especially women, minorities, and elderly people.

Poverty in the workforce – also referred to as ‘employment poverty’ – is an issue that Oxfam Hong Kong has been addressing for several years through research, advocacy, public education, and support for community projects. We see that in the swelling ranks of the poor and the near-poor are people who do an honest day’s work, but who do not receive the compensation that can provide a decent standard of living.

This report examines the alarming facts on poverty among workers over the past decade and argues that the current situation is unacceptable. Solutions are urgently needed. This report also makes proposals for a path to improvement.

Oxfam’s underlying proposal is simple: all of us — not just business and government leaders — need to get involved in making Hong Kong the society it wants to be: polls indicate that a majority of the population supports a minimum wage, for instance. All of us need to consider what responsibilities we accept as individuals, and as a community.

Here is a way in which everyone can help: make it clear to our leadership that their mandate rests on our expectation that they will build a better, fairer society, a society that values every single worker in Hong Kong.

## Summary

Despite economic recovery in the last few years, the number of working poor has continued to grow. In 2006, 13.1 per cent of the working population (representing 418,600 workers) earned incomes that were less than half of the median income of the working population. Between 1996 and 2006, the number of working poor, whose earnings were below this marker, has increased by 87.9 per cent. Women constitute the majority of the working poor. They also constitute the majority of the rapidly growing ranks of part-time workers.

Between 1996 and 2006, Hong Kong's per capita gross domestic product or GDP grew from HK\$189,326 to HK\$199,498; but the number of people living in poor households soared from 835,400 to 1,160,400 - an increase of 325,000. In 2006, the poverty rate stood at 18.0 per cent, with about one out of every five to six persons living in poverty. The greatest increase - 35.9 per cent - occurred among people aged 65 and over: one out of every three elderly people is poor.

Poverty has increased among all low-income groups due to the economic downturn between 1997 and 2003; but three groups in particular—women, ethnic minorities, and new immigrants—have suffered greater hardship as a result of discrimination and social exclusion.

Escalating poverty reflects, in part, government policies' failure to address problems brought on by economic restructuring since the 1980s. While the service sector has replaced the manufacturing sector as the leading job provider for Hong Kong people, most of the newly created jobs are low-paying and offer little room for advancement and security. In 1996, 61.4 per cent of employees, who were paid less than HK\$5,000 per month, worked in three main industries. By 2005, this figure had risen to 77.4 per cent.

In 2005, the government set up the Commission on Poverty (CoP) to study measures that would alleviate poverty. On the whole, economic growth and investment in human resources have comprised the government's poverty reduction strategy. Employee retraining and youth employment programmes have been the main means by which the government has addressed the issue of unemployment. These measures are far from adequate; and the government must do much more to address the problem of worsening poverty among the working population. Making matters worse is the increasing stigmatisation faced by recipients of Comprehensive Social Security Assistance (CSSA).

To alleviate poverty in the long-run, the government should go beyond a narrow focus on economic growth, and integrate social development objectives into macro-economic development plans for Hong Kong, so that its citizens enjoy full employment with decent pay, economic growth benefits the entire population, and the income gap between the rich and the poor is narrowed over time.

Government policy and programmes to alleviate poverty should not only target the unemployed, but also include the working poor, in particular poor working women.

As an immediate measure that can reduce poverty, particularly among the employed, Oxfam Hong Kong urges the government to adopt a statutory minimum wage. Apart from the broad benefits of such a measure, it will also help improve the position of working poor women and ethnic minorities, which should be a significant contribution to the government's concern for gender equality and ethnic equality. In addition, tax credits should be explored as a form of direct income support, and a supplementary provision to a minimum wage.

## **Poverty amidst Growth**

In spite of the de-industrialisation of Hong Kong that occurred in the 1980s, and several episodes of economic downturn, Hong Kong's economy continued to grow. According to government statistics, per capita gross domestic product (GDP) increased from HK\$106,695 in 1985 to HK\$180,323 in 1995 (expressed in constant 2000 HK dollars).<sup>1</sup> Such figures are used to reinforce the belief that economic development alone is the key to eliminating poverty, and that poverty is disappearing rapidly in Hong Kong. Unfortunately, the reality reveals a different story.

As early as 1986, it was estimated that 13 per cent of Hong Kong households lived in relative deprivation (Chow, 1986). Several years later, in 1991, it was found that 230,000 households, or 14.9 per cent of all households, belonged to the low-income bracket (Lui and Wong, 1995). Various researches have put the number of poor people between 600,000 and 850,000, or 10 per cent to 15 per cent of the whole population (Chua and Wong, 1996; MacPherson and Lo, 1997; Mok and Leung, 1997).

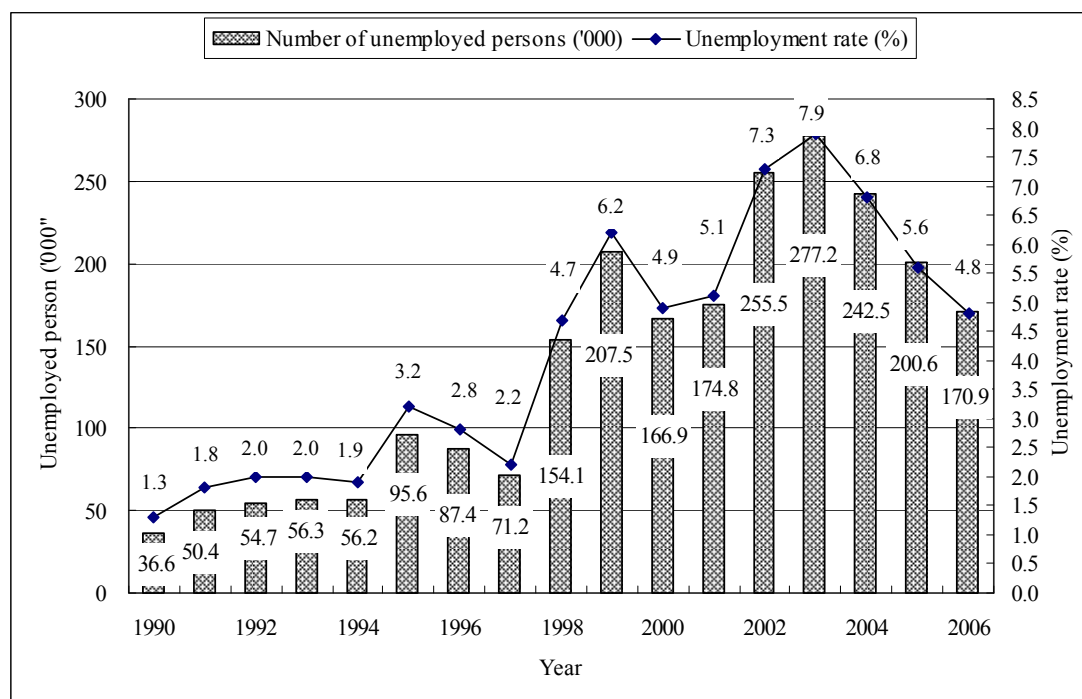
### **More people unemployed**

In 1991, unemployment in Hong Kong was only 1.3 per cent. But as the effects of the relocation of factories to Mainland China continued to be felt, unemployment slowly climbed to 3.2 per cent, or 95,600 people. Unemployment slowed down with the economic boom immediately before Hong Kong's return to China, but rose again during the Asian financial crisis in 1997 (see Figure 1).

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<sup>1</sup> "Gross Domestic Product (GDP), implicit price deflator of GDP and per capita GDP," Census and Statistics Department, retrieved from <http://www.censtatd.gov.hk/showtableexcel2.jsp?tableID=030>

**Figure 1: The population of unemployed and the unemployment rate, 1990-2006**



*Note:* The figures are not seasonally adjusted.

*Source:* Data excerpted from the “Statistical Table on Labour Force, Unemployment and Underemployment,” retrieved at the Census and Statistics Department’s website on June 7, 2007. Census and Statistics Department (2007), *2006 Population By-Census: Summary Report*

In 1997, unemployment rate was 2.2 per cent, representing 71,200 persons. This rose to 4.7 per cent in 1998, and continued to climb to 7.9 per cent in 2003. Between 1997 and 2003, the number of unemployed increased fourfold, from 71,200 to 298,000. Even when unemployment dropped as the SARS crisis wound down, it still stood at 4.8 per cent in 2006, representing a jobless population of 174,300. Compared to 1997, there was a net increase of 100,000 jobless people by 2006.

### **More Poor Households**

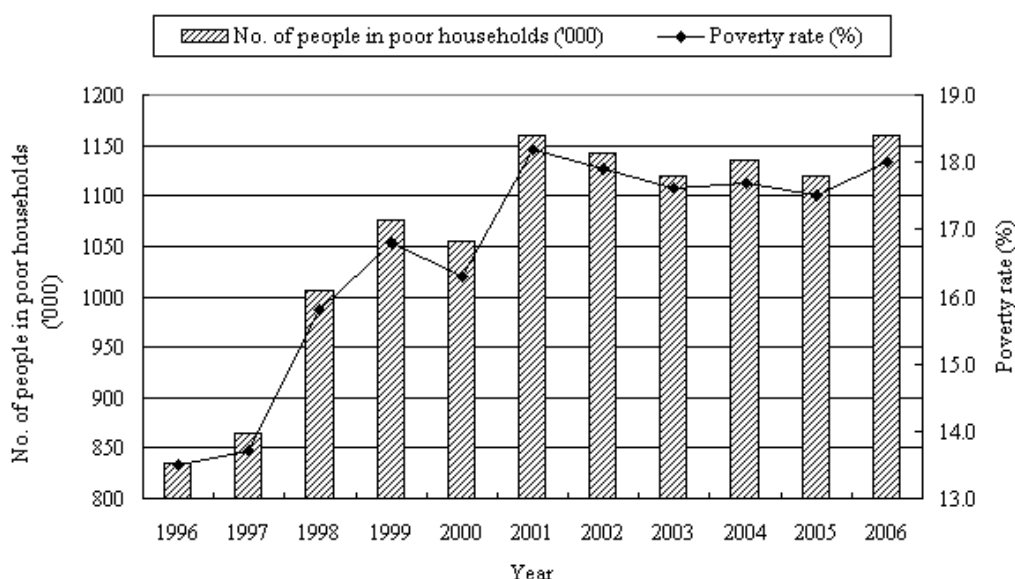
Unemployment not only affects the unemployed but also their families. This obvious but no less important fact is demonstrated by the drastic increase in the number of poor households between 1997 and 2006. What is particularly noteworthy is that even when the economy picked up again, the number of poor households did not decline but continued to grow.

In 2004, a study on poverty by the Hong Kong Council of Social Services (HKCSS) calculated the poverty rate of households, using half of the median value of monthly domestic household income as the threshold of poverty<sup>2</sup>

<sup>2</sup> Hong Kong Council of Social Services (2004), “Growing Seriousness in Poverty and Income Disparity,” September 2004.

Using the General Household Survey data, Oxfam Hong Kong define ‘poverty household’ as domestic households with monthly income less than 50 percent of the median income of households of the same household size. Foreign domestic helpers are excluded as household members in this definition. Our study showed that between 1996 and 2006, the poverty rate soared from 13.5 per cent to 18. per cent, with the number of people living in poor households rising from 835,400 to 1,160,400 - an increase of more than 325,000. The poverty rate appears to have declined slightly between 2001 and 2005, which can be attributed to a lower poverty threshold brought about by the general decline in income across all households, due, in turn, to the increase in unemployment during this period. In 2006, the poverty rate rose to 18 per cent again, despite the economic recovery. (see Figure 2)

**Figure 2: Number of poor and poverty rate, 1996 – 2006**



Source: Census and Statistics Department

With the passing of the SARS crisis, Hong Kong’s economy slowly recovered. The unemployment rate climbed down from an all time high of 7.9 per cent in 2003 to 4.8 per cent in 2006. However, during this period, the poverty rate only slightly declined and actually rose to 18% again in 2006. In other words, low-income groups did not benefit from the economic turnaround.

### **Widening Income Gap**

A widening income gap has characterised Hong Kong’s economic development in the

last two decades. Hong Kong's Gini coefficient (an internationally used measure of income inequality) deteriorated from 0.451 in 1981 to 0.518 in 1996, and continued to do so, such that by 2006, it stood at 0.533.<sup>3</sup> (see Table 1)

The poorest 20 per cent of all households saw their share of the monthly income decline from 4.6 per cent in 1981 to 3.7 per cent in 1996, while the share of the richest 20 per cent rose from 50.4 per cent to 56.3 per cent in the same period. The gap continued to widen between 1997 and 2006. During this period, the poorest 20 per cent saw their share of all households' monthly income decline from 3.7 per cent to a dismal 2.9 per cent. According to the 2006 population by-census, the median monthly income of the richest ten per cent of the population was 51.8 times that of the poorest ten per cent in 2006, much higher than the figure of 38 in 1996.<sup>4</sup>

**Table 1: Deciles distribution of monthly household income of domestic households**

<b>Deciles group</b>	<b>1981</b>	<b>1986</b>	<b>1991</b>	<b>1996</b>	<b>2001</b>	<b>2006</b>
1st (lowest)	1.4	1.6	1.3	1.1	0.9	0.8
2nd	3.2	3.4	3.0	2.6	2.3	2.1
3 <sup>rd</sup>	4.4	4.4	4.0	3.6	3.4	3.2
4 <sup>th</sup>	5.4	5.4	5.0	4.6	4.4	4.3
5 <sup>th</sup>	6.5	6.4	6.1	5.7	5.6	5.6
6 <sup>th</sup>	7.8	7.6	7.4	7.0	7.0	7.0
7 <sup>th</sup>	9.4	9.1	9.0	8.5	8.8	8.8
8 <sup>th</sup>	11.5	11.4	11.4	10.6	11.1	11.3
9 <sup>th</sup>	15.2	15.2	15.5	14.5	15.3	15.6
10th (highest)	35.2	35.5	37.3	41.8	41.2	41.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
<b>Gini coefficient</b>	<b>0.451</b>	<b>0.453</b>	<b>0.476</b>	<b>0.518</b>	<b>0.525</b>	<b>0.533</b>

Source: Census and Statistics Department, *Population Census and By Census Reports* (various years)

Table 2 shows how income equity in Hong Kong compares with other countries that have comparable incomes – clearly, Hong Kong does not fare well.

<sup>3</sup> Data adopted from the Census and Statistics Department

<sup>4</sup> Data adopted from the Census and Bi-census Reports of 1981, 1986, 1991, 1996, 2001, and 2006, Census and Statistics Department

**Table 2: Disparity in selected countries and places**

Country/Place	Survey year	Gini coefficient	Inequality measures <sup>a</sup>	
			Richest 10% to poorest 10 %	Richest 20% to poorest 20%
Hong Kong <sup>b</sup>	1996	0.434	17.8	9.7
Malaysia	1997	0.492	22.1	12.4
United States	2000	0.408	15.9	8.4
Australia	1994	0.352	12.5	7.0
Canada	2000	0.326	9.4	5.5

Source: UNDP, *Human Development Report 2006*, pp. 335-338

Note: (a) Inequality measure is the ratio of the income or expenditure share of the richest group to that of the poorest. (b) UNDP refers to income shares by percentiles of population, ranked by per capita expenditure, while the Hong Kong Government census data in Table 1 were estimated on the basis of household income. This explains the difference between the two figures.

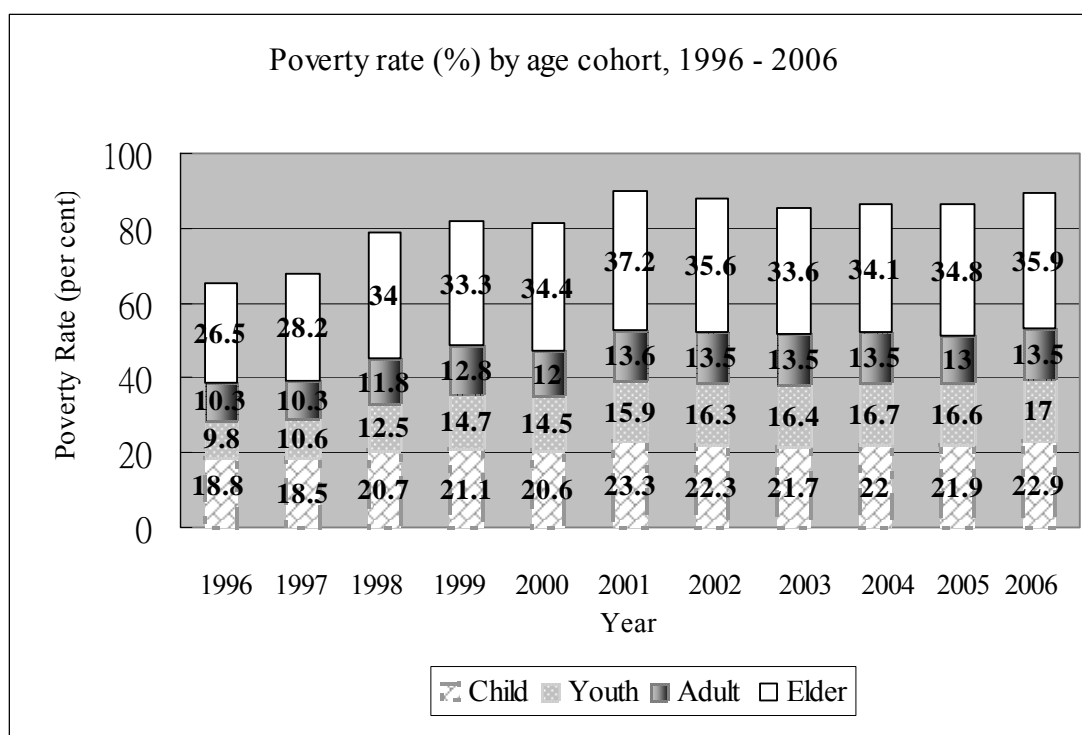
### **Poverty among Vulnerable Groups**

The economic slump that began in 1997 affected all age groups in low-income households, although elderly people remain the poorest age group, with children second. In 1996, the poverty rate of the population aged 65 and above was 26.5 per cent, and 18.8 per cent for those aged 0 to 14. By 2006, poverty among the former group had risen to 35.9 per cent, and the latter to 22.9 per cent. The poverty rate of youth between the ages of 15 and 24 is higher than that of adults between the ages of 25 and 64: in 2006, the former stood at 17 per cent, while the latter was at 13.5 per cent (see Figure 3).

Thus, by 2006, one of three elderly people, and one child of five lived in poverty.



**Figure 3: Poverty rate (%) by age cohort, 1996-2006**



Source: General Household Survey, Census and Statistics Department, various years

Note: (a) “Child” poverty rate refers to the proportion of children between the ages of 0 and 14 living in a poor household. (b) “Youth” poverty rate refers to the proportion of youth between the ages of 15 and 24 living in a poor household. (c) “Adult” poverty rate refers to the proportion of adults between the ages of 25 and 64 living in a poor household. (d) “Elder” poverty rate refers to the proportion of elders over the age of 64 living in a poor household.

### **Box 1**

Mr. Hui was born in 1926 in Guangdong. He came to Hong Kong when he was fifteen. He learned to make big wooden boxes and plied this trade in his uncle’s factory. He kept working in different factories, except during World War II. Even when wooden boxes lost favor as packing cases, he found a job through which he could support himself.

In the 1980s, the employer of Mr. Hui decided to move the factory to Mainland China. He received only HK\$20,000 as compensation for his ten years of factory work. At the time, he was not yet sixty years old. He worried because he believed that twenty thousand HK dollars could not support even a modest retirement.

Mr. Hui never thought of applying for CSSA. He found a job in a small restaurant that offered him a basic salary of HK\$2,000. He supplemented this salary with tips from customers when he delivered take-out food. He did not mind the low salary. He only wanted

to earn his living.

However, no one was willing to employ him when he reached the age of seventy. Finally, he had to apply for CSSA.

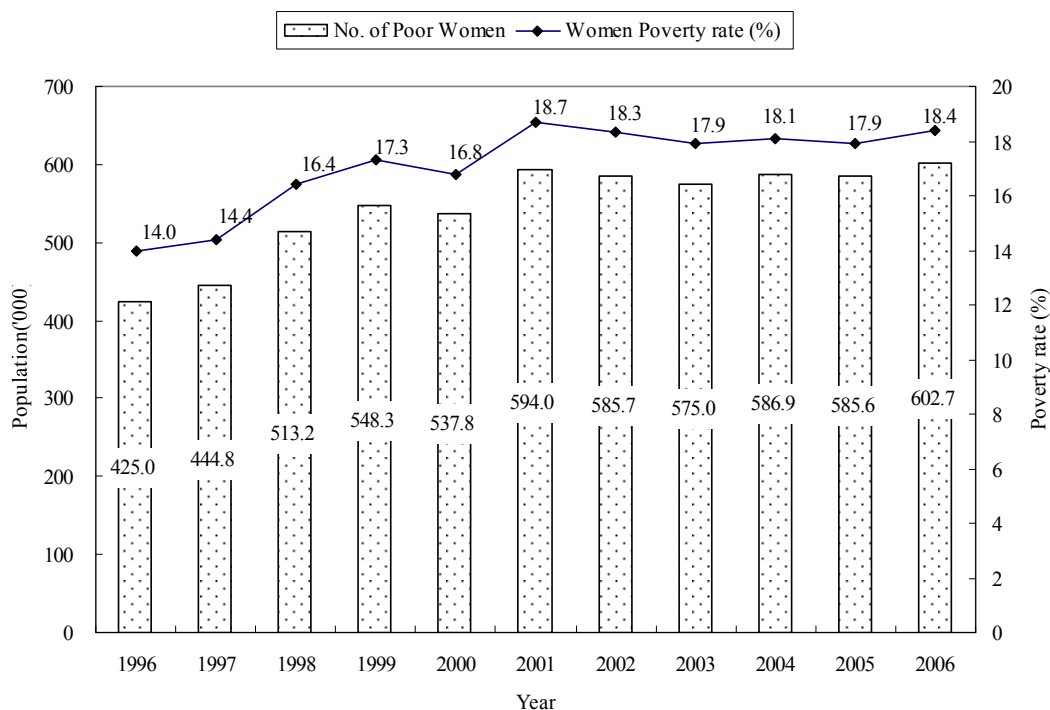
*Life on Welfare in Hong Kong: Ten Stories*

Alliance on Concerning CSSA Review and Oxfam Hong Kong (2007)

Unemployment – and poverty- are often attributed to a lack of marketable skills, old age, chronic illness, and physical or mental handicaps. But the reality is that many poor people have none of the above. In fact, many poor people are women, ethnic minorities, or new immigrants from Mainland China, who are actually poorly-paid workers. Their poverty results from a number of factors including, quite often, discrimination and exploitation.

In Hong Kong, the poverty rate of women has often been higher than that of men. In 1996, the poverty rate of women was 14 per cent, increasing to 18.4 per cent in 2006 - well above that of men. For the same period, the net increase in the number of impoverished women was 177,700.

**Figure 4: The population of poor women and women's poverty rate, 1996 – 2006**



Source: Census and Statistics Department, *General Household Survey*, various years

According to the 2006 population by-census, the ethnic minority population of Hong Kong is 342,198. South and Southeast Asians are the two largest minority groups in Hong Kong; and are often among the hidden poor, and vulnerable to discrimination. For example, South Asians are overrepresented in poorly paid occupations<sup>5</sup> According to the 2001 population census, in Hong Kong, 44.6 per cent of Nepalese and 45.8 per cent of Pakistanis were employed in menial jobs, compared to only 14.3 per cent for the overall working population. Statistics showed that, whereas only 18.6 per cent of the general population earned a monthly income under HK\$6,000, 36.1 per cent of Hong Kong's Pakistani population earned less than HK\$6,000 monthly.<sup>6</sup>

## **Box 2**

Mr. Hass is a Pakistani. He applied for at least five hundred jobs during an eleven-month period between 2002 and 2003. Not one prospective employer replied to his applications. "I even went for an interview in a factory. Just as a machine operator. In an atmosphere where I think reading and writing Chinese are hardly needed. Still, they ask me if I know reading and writing Chinese." Then, he tried to search for jobs in fields like delivery. He made enquiries through the Labour Department. Eventually, he called the representatives of three companies, and as soon as they heard his Pakistani English-language accent, they all said that they had already filled the position. He was shocked because the notice for the position had just been posted on the board. He then asked a Chinese person in the Labour Department to call about the same job. "When he called, the company said, 'Okay, you come at this time for an interview'. It was totally ridiculous!" Mr. Hass said.

*A Research Report On the Life Experiences of Pakistanis in Hong Kong*

Centre for Social Policy Studies, Hong Kong Polytechnic University &

S.K.H. Lady MacLehose Centre, April 2003

## **"No Pay, Low Pay": The Working Poor**

### **Who are the Working Poor?**

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<sup>5</sup> City University of Hong Kong and Unison Hong Kong (2003) "A Research Report on the Employment Situation of South Asian People in Hong Kong." *Working Group of the Social Integration Project for Ethnic Minority People in Hong Kong, City University of Hong Kong and Hong Kong Unison.*

<sup>6</sup> HKSAR (2000) "Sample Survey of the Characteristics of the Ethnic Minorities in Hong Kong: Main findings." Legislative Council Paper No. CB(2)590/00-01(01).

The International Labour Organization (ILO) introduced the concept of “working poor” to define persons whose income is lower than a specified poverty line even though they work or are employed. The HKSAR government does not have an official definition for the poverty line. The Legislative Council’s Subcommittee to Study the Subject of Combating Poverty set the threshold of poverty at 50 per cent of the median income of all households of the same size.<sup>7</sup> The shortcoming of this method is that it uses the household as the unit of analysis and, thus, fails to account for—and to support analyses of—individual-level poverty.

The government-appointed Commission on Poverty (CoP) uses the individual as the unit of analysis and defines working poor as employees with a monthly income less than half of the median income of all employees.<sup>8</sup> However, for reasons that are unclear, the definition excludes employees who ‘voluntarily’ work part-time (including under-employed workers whose monthly income is less than \$5,000) and all self-employed persons or employers. Such a definition excludes a large number of women who work only part-time outside the home because of their role as primary caregivers in their families. The definition also fails to count the large number of low-paid workers who have been forced by their employers to become self-employed or contractors subsequent to the introduction of the Mandatory Provident Fund.

According to a survey of the Census and Statistics Department,<sup>9</sup> there were a total of 150,900 part-time employees in the second quarter of 2005. Of these, only 3.3 per cent indicated that the main reason for their not working longer hours was “no financial need.” In other words, only a small minority - freelance professionals, for instance - do part-time work as a matter of choice. The vast majority are, therefore, not voluntary part-time workers.

More than 70 per cent of part-time workers earn less than HK\$6,000 a month. In 2003, of the 207,300 self-employed persons, 20.6 per cent earned less than HK\$4,000 a month, and 16.4 per cent earned between HK\$4,000 and HK\$5,900 a month. These figures show that a high percentage of part-time employees and self-employed persons are belongs to the working poor.

In this paper, we define the working poor as employed persons whose income is less

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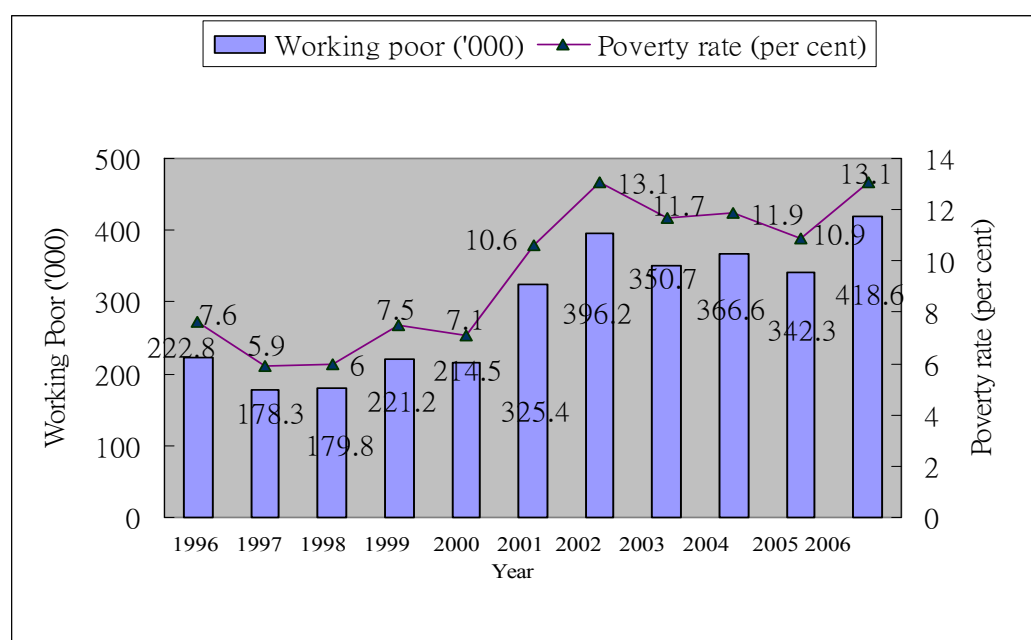
<sup>7</sup> Legislative Council Subcommittee to Study the Subject of Combating Poverty (2005) “Report on Working Poverty,” LC Paper No. CB(2) 1002/05-06

<sup>8</sup> Commission on Poverty (2006a), “Policy to Assist Low-income Employees,” 23 January 2006, discussion paper.

<sup>9</sup> Census and Statistics Department (2006) “Social Data Collected via the General Household Survey: Special Topics Report No. 43.”

than half of the median income of all employed persons. The poverty rate of the working poor is the percentage of the working poor over the whole working population. Figure 5 below shows that the population of the working poor (excluding foreign domestic helpers) increased from 222,800 in 1996 to 418,600 in 2006. The poverty rate among the working population rose from 7.6 per cent to 13.1 per cent.

**Figure 5: Number of working poor population and working poor poverty rate (excluding foreign domestic workers)**



Source: General Household Survey, Census and Statistics Department, various years

Table 3 reflects that the increase in numbers of people earning less than HK\$3000 and less than HK\$6000 outstrips the increase in numbers of people earning more than HK\$50,000. There are thus more people earning less – not just in relative terms, but also in real terms.

**Table 3: Employed persons (excluding foreign domestic helpers) by monthly employment earnings**

Monthly employment earnings (HK\$)	<u>1996</u>		<u>2001</u>		<u>2006</u>	
	('000)	(per cent)	('000)	per cent	('000)	per cent
<3,000	68.6	2.3	92.9	3.0	139.9	4.4
3,000 – 3,999	56.5	1.9	60.8	2.0	67.9	2.1
4,000 – 4,999	97.7	3.3	83.5	2.7	112.3	3.5
5,000 – 5,999	158.1	5.4	138.5	4.5	181.1	5.7
↓						
30,000 – 39,999	158.7	5.4	237.2	7.7	251.0	7.8
>50,000 or over	88.9	3.0	141.3	4.6	146.0	4.6

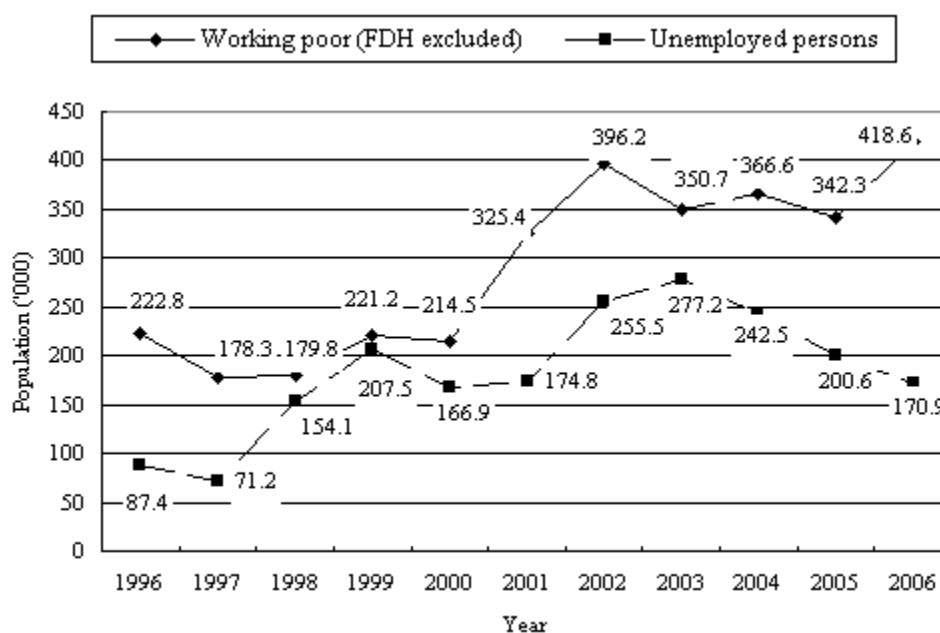
Source: Adopted from Census and Statistics Department (2007), *2006 By-census: Summary Report*

### Moving between 'No Pay' and 'Low Pay'

The relocation of Hong Kong's manufacturing industry to Mainland China effectively re-structured the economy (Chiu et al., 1997). One direct consequence of such economic restructuring was the segmentation of the labour market into highly-paid knowledge-based professionals, a shrinking middle-income working population, and a low-paid low-skilled working class. The middle-income working population has seen deskilling and downward mobility, which have shifted many of them to the ranks of the working poor.

Figure 6 indicates both the time-series trends of unemployment and working-poor numbers over the last decades.

**Figure 6: Number of working poor and unemployed persons, 1996 - 2006**



Source: General Household Survey, Census and Statistics Department, various years

The figures show that even in the years of economic recovery (post-2003), the number of working poor stayed high, even as the number of unemployed dropped. The above data suggests that as the economy recovered, the unemployed were turning to low-paying jobs that placed them in the category of the working poor. Thus, in 2005, the number of unemployed dropped to its 1999 level; but the number of working poor dropped only to its 2003 level. Many in Hong Kong were happy to hear how the

number of unemployed had dropped by 30,000 in 2006. Would we have been as happy had we known that the number of working poor had peaked at 418,600, with 76,300 people having just joined the working poor’s ranks? These figures show that people’s willingness to take up low-paying jobs even after the economic slump, in fact, brought wages down.

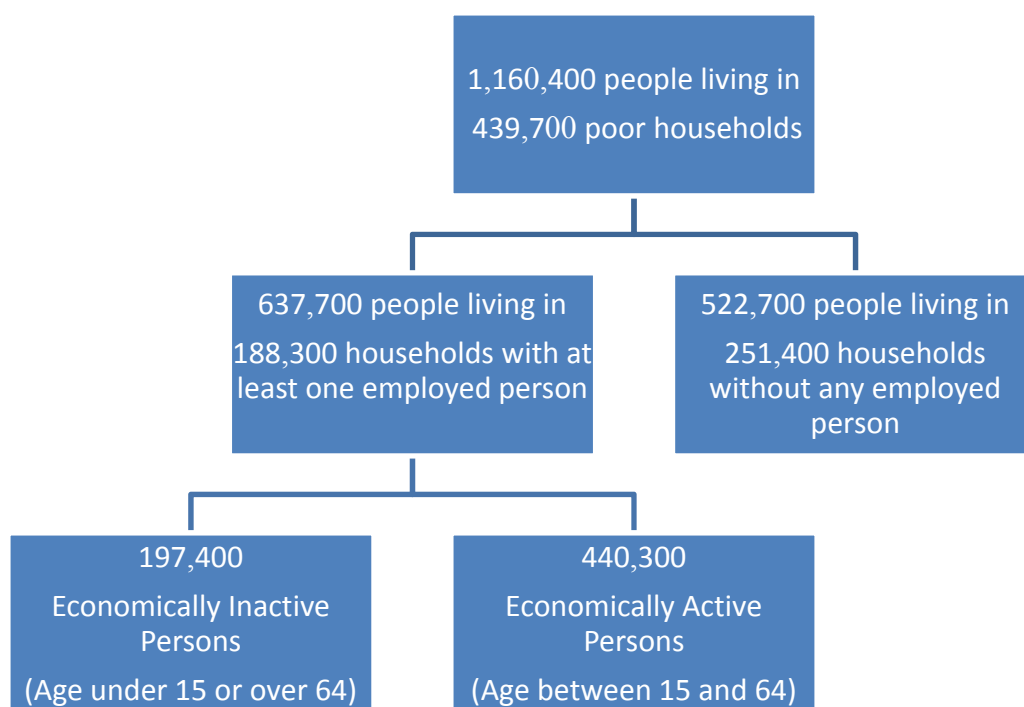
Women constitute the majority of the working poor. In 2006, women (excluding foreign domestic helpers) comprised 63 per cent of the working poor. Women between the ages of 30 and 59 are much poorer than their male counterparts.

The figures above also reveal an important fact about the employment status of the working poor over the last ten years: poor people move in constant flux along with the ups and downs of the economy, shifting between the status of “no pay” and “low pay”, almost always seeing their incomes decline.

### **Knock-on Effects on Children, the Elderly, and Women**

In 2006, there were 637,700 people living in 188,300 working-poor households (i.e., poor households with at least one wage-earning member).

**Figure 7: Number of working poor and their families, excluding foreign domestic helpers, 2006**



*Note:* ‘Poor household’ is defined as domestic households with monthly income less than 50 percent of the median income of households of the same household size.

*Source:* Census and Statistics Department



Of this, 138,900 were children between the ages of 0 and 14, and 58,500 were elderly people over the age of 64. The child-dependency ratio in poor households is much higher than in other households. For example, in 2005, the child-dependency ratio for all households was 197 per 1,000 adults. In the case of working-poor households, the child-dependency ratio in 2006 was 315 per 1,000 adults.<sup>10</sup>

Over the last ten years, with numerous lay-offs and retrenchments, the unemployment rate of the older age group rose more rapidly than that of the younger age group. For example, the unemployment rate for those aged 40 to 49 rose from 2.2 per cent to 6.5 per cent between 1996 and 2004. For the same period, for those aged 50 to 59, unemployment rose from 2.7 per cent to 8.7 per cent.<sup>11</sup> The increase in unemployment among older age groups means that more adults entering old age would become dependent on their families for support, thus adding to the burden of working-poor families.

Many women resort to part-time work to make ends meet. During times of economic difficulty, women also seldom think twice about taking up low-paying work. Women in low-income families, therefore, are easily drawn into the ranks of the working poor.

### **Box 3**

Ms. Yuen is a 50-year-old woman. She lives with her two sons in public housing. Both of her sons are working now; but they keep switching jobs and their incomes are low.

Ms. Yuen works as a custodian at the container port in Kwai Chung. Her employer is an out-sourcing cleaning company at the port. It is compulsory for the company to give her—and staff like her—four days of unpaid holiday leave per month. She earns approximately HK\$4,600 per month.

She has to pay about HK\$2,000 for monthly rent, which is the largest expense for the whole family.

*from Neighborhood & Worker's Service Centre (2007)*

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<sup>10</sup> Data taken from Table 1.1 Mid-year Population, Population Growth, Dependency Ratios and Vital Events, Census and Statistics Department, *Hong Kong Annual Digest of Statistics 2006*, p. 4

<sup>11</sup> General Household Survey Section, Census and Statistics Department, <http://www.censtatd.gov.hk/Hong-Kong-Statistics/Statistical Tables/index>

## **Causes of Poverty among Workers**

Poverty among the employed in Hong Kong results from the interplay of various factors broadly corresponding to the structure of Hong Kong's economy, as well as government policy responses.

### **The Structure of Hong Kong's Economy**

#### ***Rapid de-industrialisation***

The “northward shift of industry” constitutes the most conventional explanation for unemployment in Hong Kong in the 1980s and the 1990s. De-industrialisation has, in fact, continued even in the last ten years (1996-2006). According to government statistics, another 249,801 jobs disappeared from the manufacturing sector during this period (see Table 4). The speed and scope of Hong Kong's de-industrialisation has been rarely seen elsewhere: employment in the manufacturing sector as a percentage of total employment decreased from 35.8 per cent in 1986 to only 9.7 per cent in 2006. Contrast this with Singapore, where employment in the manufacturing sector as a percentage of total employment stood at 25.2 per cent in 1986, 22.8 per cent in 1996, and still a sizeable 20.5 per cent in 2006.

Other neighbouring states such as Taiwan and South Korea have faced similar situations; but de-industrialisation in Hong Kong has far outpaced theirs. (Chiu et al, 1997).

According to government statistics, manufacturing industries lost about 371,000 jobs between 1986 and 1996. Most displaced workers were semi-skilled and middle-aged workers; and the majority was women. Between 1996 and 2006, a further 250,000 jobs were lost in this sectors. Most of these displaced manufacturing workers failed to be absorbed by other industries; many have fallen into the poverty trap.

**Table 4: Employed Persons by Industry and by Selected Year (1986, 1996 and 2006)**

Industry	1986		1996		2006	
	No.	%	No.	%	No.	%
Manufacturing	946,653	35.8	574 867	18.9	325 066	9.7
Construction	164,268	6.2	245 440	8.1	230 227	6.8
Wholesale, retail, import-export trades, and restaurants and hotels	589,918	22.3	757 239	24.9	916 217	27.2
Transport, storage, and communications	210,367	8.0	330 974	10.9	391 285	11.6
Financing, insurance, real estate, and business services	169,967	6.4	408 686	13.4	571 378	17.0
Community, social, and personal services	486,167	18.4	680 048	22.3	905 425	26.9
Others	75,933	2.9	46 444	1.5	26 138	0.8
Total	2,643,273	100.0	3 043 698	100.0	3 365 736	100.0

*Source:* Census and Statistics Department (1997), *1996 Population By-census: Summary Report*; Census and Statistics Department (2007), *2006 Population By-census: Summary Report*

### ***Finance and service sectors fail to absorb displaced workers***

The growth in the finance and service sectors has not translated into stable jobs.

The economic restructuring of Hong Kong has seen the following sectors emerge as leading employers: wholesale, retail, import and export, and restaurants and hotels with 27.2 per cent of jobs; community, social, and personal services providing 26.9 per cent of jobs; and finance, insurance, real estate, and business services accounting for 17.0 per cent of employment.<sup>12</sup> Even though some workers displaced by economic

<sup>12</sup> Census and Statistics Department (2007) *2006 Population By census: Summary Report*.

restructuring might be able to find jobs in these three sectors, most of the new job opportunities in these three industries appear to be low paying. In fact, among employees receiving less than HK\$5,000 in 1996, the percentage of workers (excluding foreign domestic helpers) employed in each of the three sectors was 30.1 per cent, 25.4 per cent, and 5.9 per cent respectively. In 2005, the percentages rose to 36.3 per cent, 34.5 per cent, and 6.6 per cent respectively. (see Table 5)

Many of the jobs found in wholesale, retail, import and export, restaurants, hotels, community, social and personal services are location-specific, often characterised by low skill and low pay. Except for professional social services, most of the location-specific jobs and those in consumer services require low skills and offer low wages: for example, cleaning, catering, routine security services, sales, and retailing.

### ***Polarised wages***

In 1996, across all industries, high-wage knowledge-based professional labour (managers and administrators, professionals, and associate professionals) comprised 28.9 per cent of total employees while the lower-wage lower-skilled labour (sales workers and shop clerks, and so-called elementary occupations like dishwashers and cleaners) comprised 31.5 per cent. By 2005, high-wage knowledge-based professional labour had increased to 35.9 per cent of all wage-earning workers, while lower-wage low-skilled labor had increased to 34.5 per cent.

What is worse, between 1996 and 2005, the percentage of service workers and shop clerks earning less than HK\$5,000 increased from 16.2 per cent to 23.5 per cent; clerks earning less than HK\$5,000 rose from 8 per cent to 11.2 per cent. (see Table 5)

According to the Census and Statistics Department, the average wages of typical occupations in the aforementioned three sectors with the largest work force remain low; and increases in wages are minimal, or even negative. For example, dishwashers and customer-service workers experienced negative wage growth of -0.6 per cent and -10.3 per cent respectively. Contrast this with finance and insurance managers and managers in marketing-sales-retail-import-export, whose wages grew by 20.9 per cent and 15 per cent respectively.<sup>13</sup>

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<sup>13</sup> Census and Statistics Department (1996-2006) *Quarterly Report of Wage and Payroll Statistics* and Census and Statistics Department (1996-1998) *Half-year Report of Wage and Payroll Statistics*.

**Table 5: Number of employees (excluding foreign domestic helpers) with monthly employment earnings less than \$5,000 by industry and occupation, 1996 and 2005**

Year: 1996	Occupations																			
	Managers and administrators		Professionals		Associate professionals		Clerks		Service workers and shop-sales workers		Craft and related workers		Plant and machine operators and assemblers		Elementary occupations		Others		Total	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Manufacturing	*	*	*	*	*	*	1.7	0.9	*	*	5.1	2.7	22.9	12.3	19.2	10.3	*	*	49.5	26.6
Construction	*	*	*	*	*	*	*	*	*	*	6.9	3.7	*	*	3.7	1.9	*	*	11.2	6.0
Wholesale, retail, import-export trades, and restaurants and hotels	*	*	*	*	1.0	0.5	6.6	3.5	22.6	12.1	1.1	0.5	*	*	24.4	13.1	*	*	56.1	30.1
-Restaurants**	*	*	*	*	*	*	2.2	1.1	11.3	6.0	*	*	*	*	16.1	8.6	*	*	29.7	15.9
Transport, storage, and communications	*	*	*	*	*	*	1.5	0.8	*	*	*	*	1.9	1.0	5.8	3.1	*	*	9.7	5.2
Finance, insurance, real estate, and business services	*	*	*	*	0.9	0.4	1.2	0.6	*	*	*	*	*	*	8.6	4.6	*	*	11.1	5.9
Community, social, and personal services	*	*	0.9	0.4	3.0	1.6	3.7	1.9	7.2	3.8	2.2	1.2	*	*	30.0	16.1	*	*	47.3	25.4
Others	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	0.9	0.4	1.1	0.5
Total	*	*	1.2	0.6	5.4	2.9	15.1	8.0	30.2	16.2	15.7	8.4	25.3	13.5	91.8	49.3	0.9	0.4	185.9	100.0

Note:\*\* Restaurants is specified here to illustrate more clearly the poverty among the employed in this field.

Year: 2005	Occupations																			
	Managers and administrators		Professionals		Associate professionals		Clerks		Service workers and shop sales workers		Craft and related workers		Plant and machine operators and assemblers		Elementary occupations		Others		Total	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Manufacturing	*	*	*	*	*	*	0.8	0.3	*	*	1.8	0.6	8.5	3.1	9.3	3.4	*	*	21.0	7.7
Construction	*	*	*	*	*	*	*	*	*	*	13.3	4.8	*	*	7.1	2.6	*	*	21.4	7.9
Wholesale, retail and import/export trades, restaurants and hotels	*	*	*	*	2.9	1.0	13.5	5.0	49.6	18.3	1.1	0.4	*	*	30.4	11.2	*	*	98.2	36.3
-Restaurants**	*	*	*	*	*	*	3.5	1.3	24.2	8.9	*	*	*	*	15.9	5.8	*	*	43.6	16.1
Transport, storage and communications	*	*	*	*	*	*	2.2	0.8	0.7	0.2	*	*	3.2	1.1	10.9	4.0	*	*	17.6	6.5
Financing, insurance, real estate and business services	*	*	*	*	3.1	1.1	2.9	1.0	*	*	*	*	*	*	11.3	4.1	*	*	18.0	6.6
Community, social and personal services	*	*	1.3	0.4	8.9	3.2	10.4	3.8	12.9	4.7	1.7	0.6	*	*	58.1	21.4	*	*	93.4	34.5
Others	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	0.5	0.1	0.8	0.2
Total	*	*	1.4	0.5	15.8	5.8	30.3	11.2	63.7	23.5	18.1	6.7	12.8	4.7	127.3	47.0	0.6	0.2	270.5	100.0

Notes : \* Figures of small magnitude are suppressed owing to large sampling error.

Figures may not add up to the totals owing to rounding.

# Figures slightly revised to take into account the revision made to the population

Figures upon availability of the final end 2005 population estimates in August 2006.

### ***Increase in part-time and short-term labour***

Between 1995 and 2005, the number of part-time employees in Hong Kong more than doubled: from 67,800 to 150,900. The percentage of part-time employees over all employees also grew from 2.7 per cent to 5.2 per cent.<sup>14</sup> There has also been an increase in the number of temporary workers, out-sourced workers, self-employed, and contractors.

The increasing privatisation of previously publicly-provided services, such as car parks, cleaning services, and building maintenance, has frequently been accompanied by short-term employment. In order to win a contract, subcontracting companies often suppress labour costs, resulting in low pay for workers.

Faced with this situation, rather than strengthening worker protection, the government has instead continued to emphasise the need for minimal intervention in the labour market. This is, in effect, a deregulation of the labour market, as more and more workers are employed on terms which reduce the extent of their protection under labour law.

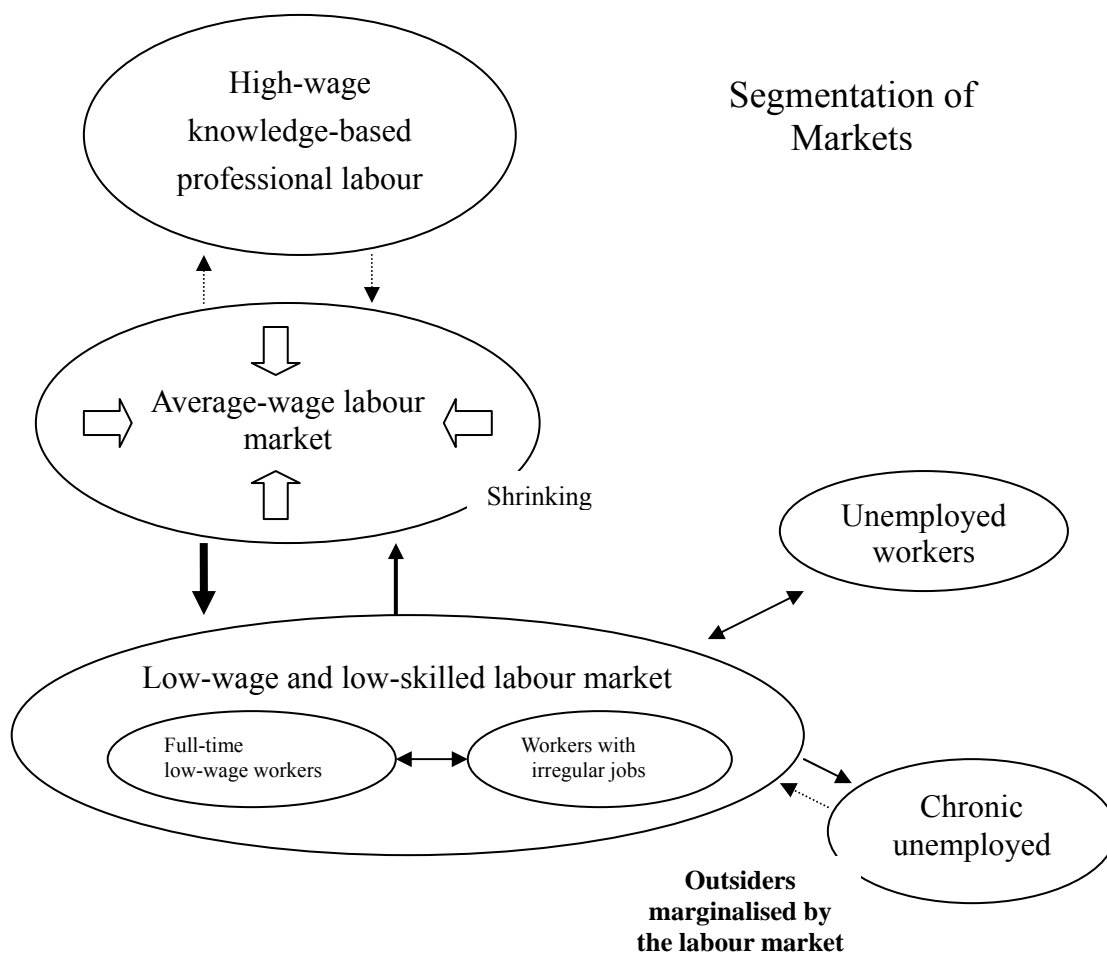
In sum, Hong Kong's labour market is now segmented into a three-tiered system: a high-wage knowledge-based professional labour market, a shrinking average-wage labour market, and a low-wage low-skilled labour market (see Figure 8).

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<sup>14</sup> Census and Statistics Department (2006) *Social data collected via the General Household Survey: Special Topics Report No. 43*, p.38.



**Figure 8: The Marginality Trap**



The average-wage labor market is shrinking even when the economy is growing; and chances of upward mobility are slim. Indeed, the likelihood of downward mobility is higher than the likelihood of upward mobility. Consequently, more and more working-class people are trapped in a vicious cycle of low-wage full-time jobs, jobs with irregular and sub-standard wage , part-time jobs, and unemployment, with very few opportunities to escape the low-wage labour market.

**Government Policy**

In the colonial period, the government’s main strategy in dealing with poverty was to maintain a social security net that would provide the poor with material support for their basic subsistence. It was hoped that education and other factors would equip poor people for social mobility, offering an escape from poverty. The strategy was

essentially a combination of promoting economic growth and investing in human capital. Reducing unemployment was seen as reducing poverty. However, this diagnosis of both the nature and the causes of poverty neglected the working poor's problems and failed to tackle social exclusion. In its post-colonial form, this strategy has translated into insufficient policy responses.

The HKSAR government's anti-poverty actions and policies appear to be too little and too late. It was not until 2000 that then Chief Executive (CE) Tung Chee-hwa officially admitted that poverty was a serious problem in Hong Kong. In his 2000 policy address, he admitted that low-income families had been particularly hard hit by the Asian financial crisis and that the income gap between the rich and the poor was widening. However, he argued that the problem arose from low levels of skills and education, which were ill-suited for the emerging knowledge-based economy.

Regarding the widening wealth gap, Mr. Tung declared in his 2000 policy address that, "unfortunately, the wealth gap is an inevitable phenomenon in the course of economic development. It is not unique to Hong Kong." To combat poverty, he proposed that the government should provide more educational opportunities facilitating social advancement and ensuring sustained healthy economic development (Government of the HKSAR, 2000).

Despite the government's anti-poverty proposals, poverty in Hong Kong worsened from 2000 to 2004. Still, in the 2005 policy address, the HKSAR government did not review its anti-poverty policy direction. The government only reiterated the policy vision stated in 2000: government intervention regarding poverty "is to first promote economic growth...so as to create employment opportunities. Then, through education and training, we seek to provide individuals with the opportunity to give full play to their potential, to enhance themselves and free themselves from poverty" (Government of the HKSAR, 2005 Policy Address, paragraph 35). Essentially, the policy vision has rested too heavily on an assumption that growth can automatically create the right kinds of jobs for the working poor, with decent pay.

Nevertheless, the worsening situation, combined with the efforts of non-government organisations (NGOs) and unions pushed the government to adopt new initiatives that target low wages amongst unskilled workers. One such new initiative was the establishment of a mandatory wage policy in 2004, albeit limited to outsourced workers in the public sector.

In 2005, the government established the Commission on Poverty (CoP) as an advisory body comprised of high-ranking government officials, legislators, experts, academics, and NGO representatives. The CoP's objective was to "study from a macro perspective, how to help poor people in terms of financial, employment, education and training needs."<sup>15</sup> However, based on the final report of the CoP in 2007, it seems that no concrete suggestions to reduce or eliminate poverty among workers and among the elderly were proposed.

In October 2006, Chief Executive Donald Tsang proposed the Wage Protection Movement, which appeared to depart from the government's non-interventionist policy. However, the new policy has been limited to two occupations -- cleaners and security guards; moreover, the participation of employers is voluntary. Mr. Tsang declared that if there is no satisfactory reduction in the number of working poor, the government will immediately legislate a minimum wage for these occupations. Despite its flaws, the new policy constitutes the first formal attempt to acknowledge the existence of working poor, and to persuade the private sector to undertake improvements.

In sum, Hong Kong's poverty arises from interplay of different factors playing out in the unique political, historical, and economic context of Hong Kong. The key contributing factors to the employment poverty are imbalance of industries structure and job insecurity. Broader contributing factors include the rapid de-industrialisation of Hong Kong and the ineffective response of policy..

It should not be assumed, however, that it is inevitable for the working poor to suffer from economic shifts. Experiences throughout the Asia-Pacific region show that government interventions can mitigate negative impacts on labour. Like Hong Kong, both South Korea and Taiwan have faced de-industrialisation and suffered from the Asian financial crisis. However, unlike Hong Kong's government, both the South Korean and Taiwanese governments responded by actively addressing the needs of the working poor and promoting the reconstruction of local industry.<sup>16</sup> It is beyond the scope of this paper to review in-depth other states' interventionist policies and the

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<sup>15</sup> See Paragraph 44 of Tung Chee-hwa's 2005 Policy Address.

<sup>16</sup> Faced with the working-poor issue, Singapore acknowledged the problem and organised interdepartmental efforts to resolve it. Singapore has been carrying out its Work Assistance Programme (WAP) and its Self-reliance Programme (SReP) to mitigate the poverty afflicting workers. Responding to economic upheaval, the South Korean government took immediate action to protect marginalised workers. In October 1999, the South Korean government strengthened the social safety net for the unemployed by extending the coverage of employment insurance to all workers, including part-time and temporary workers.

roles of the unions and political parties in the policy process; but we can, at least, point to the fact that other states acknowledged the severity of the issues and took concrete and prompt steps to resolve them.

How the government perceives the nature and the causes of poverty influences whether or not it will respond to poverty and — if it does respond — when, and how. The HKSAR government does not seem to perceive poverty as a structural issue, although the government has put forward several new initiatives to help transform the Hong Kong economy.<sup>17</sup> The government is willing to intervene to financially support the economy's production side on capital accumulation, but is reluctant to intervene in structural matters and to intervene and regulate the economy's market side for labor protection. By confining its efforts to policies like the creation of temporary employment opportunities, the HKSAR government, to a large extent, has neglected marginalised workers, as well as the broader poor population.

## **Review of Current Policies**

### **Comprehensive Social Security Assistance (CSSA)**

Hong Kong's escalating poverty over the last ten years has led to a rapid rise in the number of CSSA recipients. In 1996, there were 159,837 CSSA recipients.<sup>18</sup> By November 2006, the number had nearly doubled to 295,802. Government spending on CSSA also rose from HK\$4.8 billion in 1995-1996 to HK\$17.8 billion in 2005-2006.<sup>19</sup> As a percentage of government recurrent expenditure, CSSA spending rose from 4.0 per cent to 9.4 per cent.

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<sup>17</sup> In 2000, the HKSAR government established the Commission on Innovation and Technology to spearhead Hong Kong's technological development. The Applied Science and Technology Research Institute was established in 2001. And 2001 marked the establishment of the Hong Kong Science Park Corporation, Phase 1 of which got underway in July 2004.

<sup>18</sup> As applicants for CSSA have to apply as households, CSSA cases refer to households receiving CSSA. Data on CSSA cases appear in the *Hong Kong Monthly Digest of Statistics*, published by the Census and Statistics Department.

<sup>19</sup> Data for 1995-1996 are from "Statistics on Comprehensive Social Security Assistance Scheme, 1995-2004," appearing in the *Hong Kong Monthly Digest of Statistics* July 2005. Data for 2005-2006 are from "Provision of Disregarded Earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme," CoP Paper 10/2006, June 13, 2006, retrieved on February 5, 2007 from [http://www.cop.gov.hk/eng/pdf/CoPper cent20Paperper cent2010.2006\(e\).pdf](http://www.cop.gov.hk/eng/pdf/CoPper cent20Paperper cent2010.2006(e).pdf)

### *Low Earnings Allowance Programme in CSSA*

While providing financial support to families that have no regular income, CSSA can also support employed persons whose earnings dip below a certain level, under the category of the Low-Earning<sup>20</sup>. Official statistics show that in the last ten years, among the various categories of CSSA recipients, recipients receiving the Low Earnings (LE) allowance were the fastest growing category. From 1,656 cases in 1995, the number increased to 18,176 cases by 2006. Despite the drastic increase in the number of employed people receiving CSSA, when compared with the large number of working poor, one would have to admit that the government's provision of direct assistance to the working poor has, in fact, been minimal. (see Table 7.)

**Table 6: Summary Statistics of Inflow to CSSA Low Earnings (LE) Cases**

End of year	All LE cases	New cases to LE (new comers to CSSA)		LE cases that were not LE status a year ago			
				CSSA unemployment cases changed to LE		CSSA single parent cases changed to LE	
	(a)	(b)	(b)/(a)	(c)	(c)/(a)	(d)	(d)/(a)
2001	9 008	2 160	24.0 %	815	9.0 %	283	3.1%
2002	10 607	3 054	28.8 %	780	7.4 %	240	2.3%
2003	13 534	3 405	25.2 %	1 906	14.1 %	435	3.2%
2004	16 176	2 365	14.6 %	2 951	18.2 %	468	2.9%
2005	18 089	1 994	11.0 %	2 941	16.3 %	634	3.5%
2006	18 257	1 551	8.5 %	2 536	13.9 %	610	3.3%

Source: Social Welfare Department

<sup>20</sup> The applicant and his/her family will be eligible for CSSA if their total assessable monthly household income is insufficient to meet their total monthly needs as recognized under the Scheme. When assessing a family's resources, training allowance and earnings from employment of those meeting the prescribed criteria can be disregarded up to a prescribed level. The amount of assistance payable to applicants is worked out according to the following formula: (Recognized Needs – Assessable Income)=Amount of CSSA payment. For details, go to: <http://www.swd.gov.hk/doc/social-sec/CSSAG0707e.pdf>

In 2002, there were 10,607 LE cases, of which 3,054 or 28.8 per cent were new cases. But in 2006, the number of new LE cases was only 1,551, representing only 8.5 per cent of the total 18,257 LE cases (SWD, 2007). From 2003 to 2006, the number of working poor was 350,700, 366,600, 342,300 and 418,600. Thus, the number of LE cases represents an insignificant number of people in need. More importantly, the growth in the number of LE cases appears to correspond to the HKSAR governments' implementation of the Intensive Employment Assistance Projects (IEAPs).

In 2003, the government launched another programme (the IEAPs) to encourage CSSA recipients to look for work. According to the Social Welfare Department, 22,988 CSSA recipients took part in the programme between October 2003 and March 2006. Among these participants, 6,054 secured paid employment. However, only 2,330 participants were able to leave CSSA altogether. Over 80 per cent of participants who secured paid employment received support from the Low-Earnings Allowance Programme. In 2006, among LE cases that had not held an LE status one year earlier, 13.9 per cent were CSSA unemployment cases that changed over to LE and 3.3 per cent were CSSA single parent cases that changed over to LE (SWD, 2007).

Furthermore, government figures show that many CSSA recipients who re-enter the labour market can find only low-paying jobs which can hardly support the worker, much less a family. Among the 20 per cent of CSSA recipients identified as completely "self-reliant", 32.5 per cent receive less than HK\$5,000 a month and 16.7 per cent receive less than HK\$4,000 a month after joining the programme (SWD, 2007).

Government pressure on CSSA recipients to enter the labour market may be contributing to their taking up low-paid jobs. Another contributing factor can be the growing stigmatisation of CSSA recipients.

### ***Stigmatisation of CSSA recipients***

As a social safety net, CSSA should help relieve the hardship of the poor, especially in times of economic difficulty. However, in the last ten years, CSSA recipients have been the targets of growing stigmatisation. In a study conducted by Oxfam Hong Kong and the Centre for Policy Studies of the Hong Kong Polytechnic University in 2006, 59.4 per cent of respondents claimed that abuse of CSSA scheme was rampant. In fact, based on figures from the Social Welfare Department (SWD), in 2006-2007,

fraud was established only in 167 cases, or 0.056 per cent of the total number of CSSA cases.

A study conducted by the Centre for Communication studies of the Chinese University of Hong Kong found that recent newspaper stories about CSSA were more likely to characterise CSSA recipients as undeserving. Indeed, most of the respondents in the Oxfam study that did not have direct knowledge of CSSA recipients stated that they got their information mainly from the media (television: 75 per cent, and newspapers: 71 per cent).

Government pronouncements tend to strengthen public misperceptions and stigmatisation of CSSA recipients. For instance, government often stressed that (1) long-term recipients of CSSA would, because of dependency, become lazy; (2) the level of support discouraged recipients from looking for work; (3) the income of certain households on CSSA would exceed the income of low-income households not on CSSA; and (4) undeserving recipients were abusing the programme.

The government also seldom highlighted the social function of CSSA in relation to families in need and to the society as a whole. Furthermore, the government seldom corrected misperceptions or misinformation that reflected poorly on CSSA recipients.

One indirect, but no less powerful, effect of increasingly negative public images of CSSA recipients is some needy people's decision not to apply for CSSA. This decision amounts to a trade off: their loss of an invaluable social safety net is compensated for by the successful avoidance of the negative association with CSSA (OHK and CUHK, 2006).

In a recent study, 33.4 per cent of the respondents said that they would not apply for CSSA even if their family were eligible and were in need. Among this group of respondents, 79.5 per cent said that they did not want to rely on the government; and 30.5 per cent said that they feared that, by receiving assistance, they and their family members would be seen as inferior (OHK and HKPU, 2007). Stigmatisation has thus become a social barrier, excluding the poor from the much-needed safety net, thus, rendering the safety net ineffective.

### **Human-capital Enhancement Program**

Since the colonial period, Hong Kong governments have considered investment in

human capital to be the most effective strategy by which society can deal with unemployment and alleviate poverty. The government introduced employee-retraining programmes in the 1990s to deal with layoffs that had resulted from economic restructuring. After the economic recession in 1997, the government introduced youth-employment programmes to address the lack of job opportunities.

### ***Employees Retraining Scheme***

The Employees Retraining Scheme is a large-scale Hong Kong programme providing “retraining” every year to tens of thousands of unemployed.<sup>21</sup> It offers a wide range of placements and part-time courses mainly for employees who are 30 or older. However, despite the Employees Retraining Board’s claim that 80 per cent of the trainees retained their jobs after their placements, studies have found no evidence of positive effects on participants’ performance in the labour market in terms of earnings, duration of employment, or employment status (Chan and Suen, 2000; Policy 21 Ltd., 2001).

To the contrary, skills training was associated with lower earnings (Chan and Suen, 2000). One year after the baseline, trainees earned HK\$1,090 less than the comparison group, on average (the negative effect did tend to diminish over time, probably as the trainees caught up with the comparison subjects over time).

In a user’ survey conducted by Policy 21 of University of Hong Kong, majority of re-trainees interviewed thought that the Board’s programme strengthened their job search (61 per cent), their vocational skills (67 per cent), their self-confidence (72 per cent), and their adaptability to work (66 per cent).<sup>22</sup> But it also gave no indication as to whether the re-trainees had improved their earnings,

In its reports, the Employees Retraining Board uses the employment rate of participants as its major outcome measure. However, the Board does not report the salary level of re-trainees. Neither has the Board explained why it has not done so. It seems that the major concern of this programme is to prepare the trainees to look for a job, with less regard for their working conditions and whether they got the decent pay.

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<sup>21</sup> Employees Retraining Board, *Employees Retraining Board Annual Review*, various years.

<sup>22</sup> Policy 21 Ltd., 2001, “Report on the Users Opinion Survey of the Employees Retraining Scheme,” Hong Kong: Policy 21 Ltd, University of Hong Kong.



## **Wage Protection Movement (WPM)**

The HKSAR government's campaign to promote the WPM is one of the biggest among recent government campaigns. However, by the end of June 2007, only 955 companies pledged to join the scheme.<sup>23</sup> According to the information provided by 858 of the participating companies, they employed a total of 29,000 security guards and cleaners. Together with the 30,000 cleaners and security guards employed by government departments and subcontractors in the public sector, a total of 59,000 workers would be guaranteed that their monthly wages would not fall below the average wage level as stipulated in the Census and Statistics Department's Quarterly Report of Manpower and Payroll. But these 59,000 workers account for only about 31 per cent of the total number of cleaners and security guards in Hong Kong, which is 190,000.

It can be argued that improvements to the workers' situation in the public sector stem not from the government's WPM but from the efforts of unions and NGOs since 2002. The benefits to the workers in this sector should not be attributed to the WPM. The WPM accounts for the protection of 29,000 workers at most, or 15.2 per cent of the 190,000 workers in these two occupations in Hong Kong.

A recent survey revealed that a majority of the companies that joined the project and agreed to pay the average wages set by the Labour Department are actually paying less than agreed. The study found that banking firms are paying only HK\$21.90 per hour, which is considerably less than the minimum level of HK\$26.60 set by the government. A similar situation is also found in the construction industry.<sup>24</sup>

Up to the end of 2007, there is low participation in the government's voluntary WPM, reflecting a low commitment among employers to provide decent pay, resulting in poor protection of workers.

Keeping wage protection voluntary will result in an unjustifiable continued lack of

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<sup>23</sup> Labour and Welfare Bureau (2007), "Progress of the Wage Protection Movement for Cleaning Workers and Security Guards." Paper submitted to the LegCo Manpower Panel" Hong Kong: Hong Kong Government Legislative Council Paper No. CB(2)2355/06-07(01).

<sup>24</sup> HK Building and Security Workers General Union (2007), "A Survey on the Wage Level of Security Guards and Cleaners of Corporations that Joining the Wage Protection Movement," Paper presented to the LegCo Manpower Panel. LC Paper No CB(2) 2396/06-06 (01), Hong Kong Government.

protection for the working poor.

## **In Search of Alternative Policies**

### **Low Earnings in CSSA**

The Low Earnings (LE) allowance is the only direct income support the government provides to the working poor. In financial year 2004-2005, public expenditure on the LE amounted to HK\$1,132 million, for about 18,000 low-income households.<sup>25</sup> The average household receives about HK\$5,240 a month.

According to the CoP, there were 190,000 low-income employees in mid-2005 from about 180,000 households. If half of these households, as they are eligible to do so, become low-earnings CSSA recipients, the government expenditure would expand roughly five times, that is, to about HK\$5.65 billion. Compared with HK\$17.6 billion, which was the total 2004-2005 expenditure on CSSA, this hypothetical figure of low-earnings cases alone is a tremendous financial burden.

By using public revenue to provide direct income assistance to low-paid employees without establishing a mandatory minimum-wage level, the government is, in effect, subsidizing employers who refuse to pay fair wages. Therefore, the Low Earnings allowance in its present form should only be a supplementary measure and not a major institutional tool to alleviate the poverty of the working poor.

### **Statutory Minimum Wage**

The purpose of a minimum wage is to eliminate exceptionally low wages, particularly in low-paying sectors or for selected workers who are vulnerable to low wages, such as home-based workers, women, children, and youth. Though a minimum wage may serve economic objectives by, for example, encouraging the unemployed or welfare recipients to join the labour force, a minimum wage's primary objective is to guarantee economic justice insofar as the wage should ensure that workers receive just compensation and that their income covers at least their basic necessities.<sup>26</sup>

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<sup>25</sup> Commission of Poverty (2006), "Policies in Assisting Low-income Employees," CoP Paper 1/2006, January 23, 2006, retrieved on February 7, 2007.

<sup>26</sup> Article 23 of the U.N. Declaration on Human Rights states that "everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection." Article 4 of the

Hong Kong's escalating poverty over the last ten years has fueled the debate over a minimum wage. Proponents of a minimum wage argue that the income gap between the rich and the poor has widened to such an extent that the non-interventionist policy of the government is no longer appropriate. Because collective bargaining is often absent in Hong Kong, legislating a minimum wage could serve to protect low-paid workers at little public expense (Lee et al., 2000; Lee, 2002). Opponents argue that minimum wage legislation would increase labour costs and slow down economic growth. They also argue that unskilled and semi-skilled workers would be driven out of the labour market, as employers prefer skilled workers (Lam, 2004, Lam, 2004, Leung, 2004; Li, 2004).

### *Experiences of the United Kingdom and Ireland*

The United Kingdom and Ireland introduced National Minimum Wage schemes in 1999 and 2000 respectively. Subsequent examination of the possible negative effects of minimum wage on employment have found that the effects have been minimal or slight (Machin et al., 2003; Machin, 2006; Nolan et al., 2003; Nolan et al., 2006). According to several studies, the introduction of a minimum wage raised income levels among low-paid workers and helped reduce the wage gap between men and women (Nolan et al., 2001). At the same time, it is worth noting that any statutory minimum wage should be carefully calculated. In short, the effects of a minimum-wage policy depend on the following factors: which businesses or social sectors are involved; how the minimum wage statute is designed; how the statutory minimum wage is calculated; how businesses adjust; how the wage is supported by other institutional arrangements; and the availability of supplemental support.

### *Experiences in Hong Kong*

In May 2004, the HKSAR government began to enforce a mandatory wage policy according to which subcontractors for public service must pay their non-skilled workers a wage comparable to their counterparts in the private sector. A survey<sup>27</sup>

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Council of Europe's Social Charter provides for the right to "a fair remuneration," referring to "remuneration such as will give them and their families a decent standard of living." On this basis, an expert advisory committee of the Council recommended in 1977 a minimum "decency threshold" of 68 per cent of the average national wage. In 1993, the committee adjusted this threshold in the light of changing circumstances, stating that the lowest net wage should not fall below 60 per cent of the net average wage.

<sup>27</sup> Oxfam Hong Kong (2005), *Research on the Impact of the New Wage Policy on Cleaners employed by Governmental Outsourcing Contracts*, Unpublished.

conducted by Oxfam Hong Kong in 2005 examined this policy's effects on cleaning workers employed by subcontractors of the Housing Department. The survey found that among 95 workers working in 19 public housing estates, 59 per cent received over HK\$5,000 a month. This was a significant improvement from the 19.4 per cent receiving this wage level before the introduction of the mandatory wage policy.

Another study<sup>28</sup> conducted by the Hong Kong Women Workers Association in 2006 found that 47.3 per cent of the workers received over HK\$5,000 a month after the enforcement of the mandatory wage. In comparison, only 27 per cent of the workers received over \$5,000 a month before the minimum wage was introduced. The study found no evidence of lay-offs. In terms of holidays, 99 per cent enjoyed four days of holiday a month, compared to only 21 per cent enjoying four days and 32 per cent with only two rest days in the past.<sup>29</sup>

In short, since the introduction of the mandatory wage, there has been a general improvement in the working conditions of Hong Kong workers, with no large-scale lay-offs.

### *Correlation between wage level and size of workforce in Hong Kong*

To better understand whether the establishment of minimum wage would affect employment growth, we have made use of data compiled by the Census and Statistics Department. In particular, we have used the data in a preliminary study of the correlation between wage level and size of the workforce in three types of occupations: cleaning work, security guard work and restaurant work.

Over the last ten years, there has been little change in the real wages of cleaners and security guards. In the case of cleaners, 1996 real wages are nearly the same as 2006 real wages. In the case of security guards, fluctuation of real wages during this period was less than 20 per cent. Yet, the number of persons employed in cleaning work has increased by 90 per cent, and the number of persons employed in security guard work has increased by 70 per cent. The coefficient of the correlation between wage level and size of workforce was 0.67 for cleaning work, and 0.66 for security guard work. That is, the higher the real wage, the bigger the workforce.

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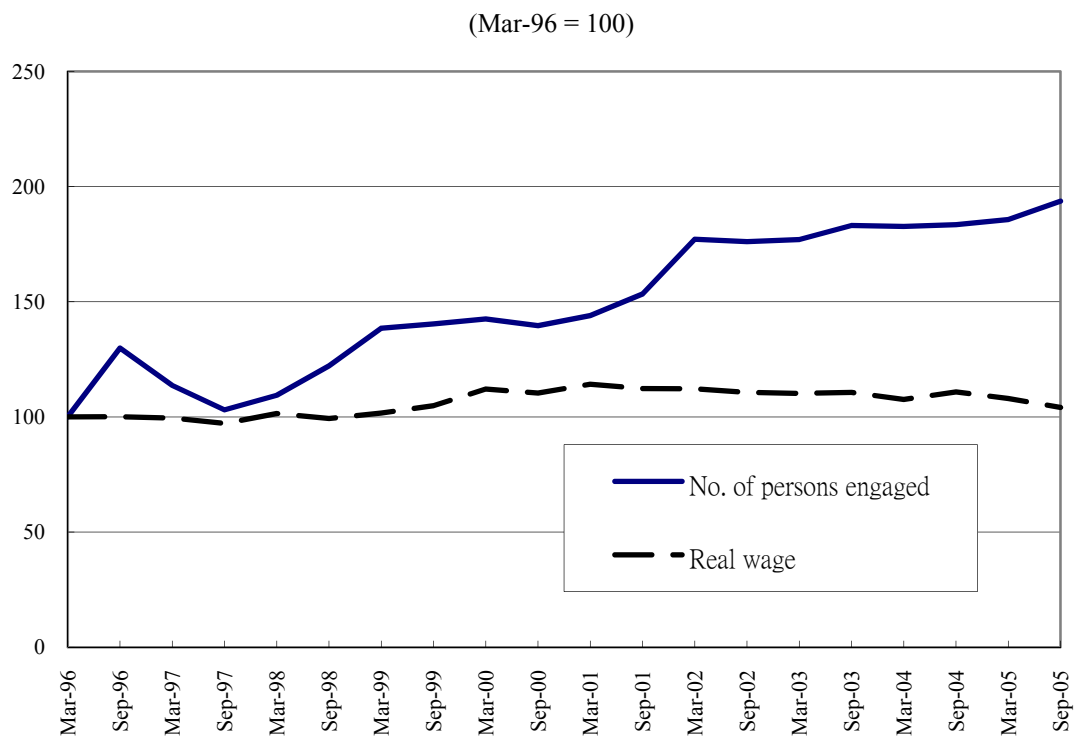
<sup>28</sup> Original study in Chinese, see 香港婦女勞工協會 「最低工資研究報告」2006年 (未發表)

<sup>29</sup> According to the Employment Ordinance, an employee employed under a continuous contract is entitled to not less than one rest day in every period of seven days. In addition, an employee, irrespective of his or her length of service, is entitled to 12 statutory holidays a year. The fact that cleaners often enjoyed fewer holidays than what was stipulated in the relevant ordinance illustrates the exploitative conditions to which these workers are often subjected.

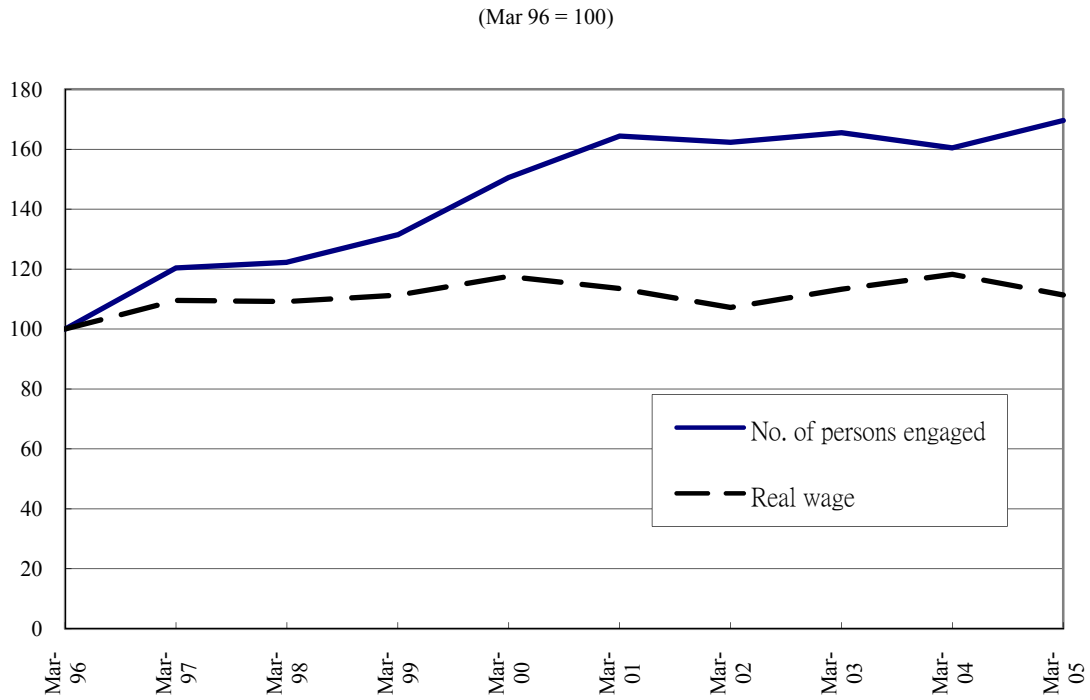
In the case of restaurant workers, there has been little change both in the size of the workforce and in their real wages over the last ten years. In other words, there is no strong negative correlation between the wage level and the size of the workforce.

These calculations show that the main determinant of the size of the workforce in these three occupations is not labour cost.

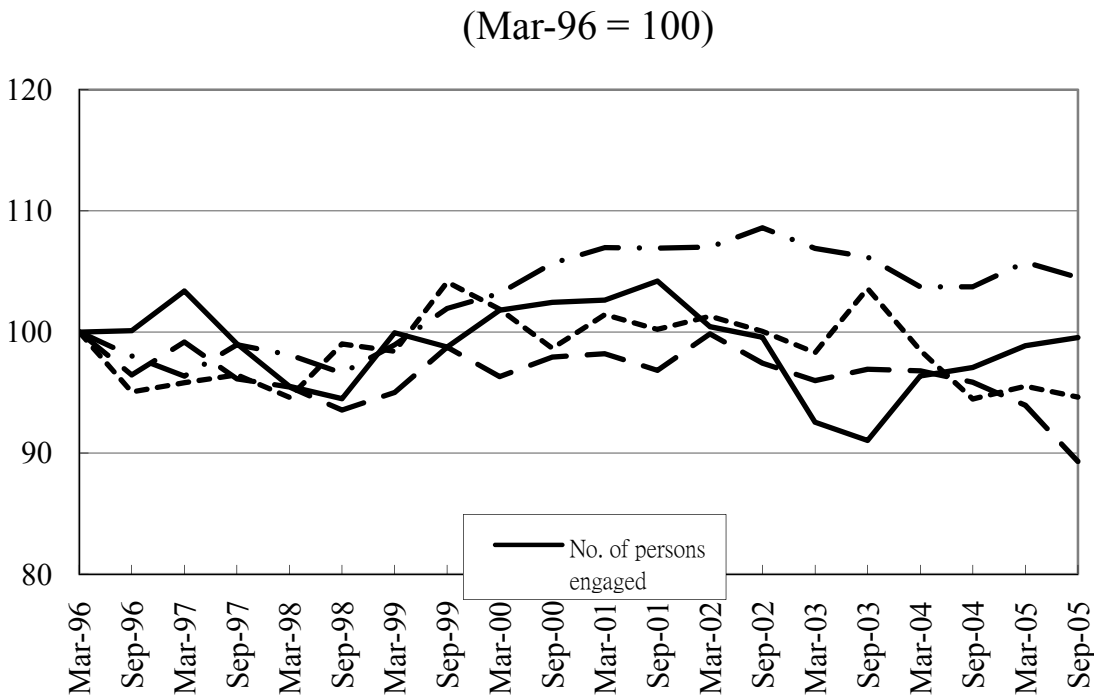
**Figure 9: Index of number of persons engaged vs. average real wage of cleaners**



**Figure 10: Number of persons engaged vs. average real wage of guard**



**Figure 11: Number of persons engaged vs. average real wage of restaurant worker**



Notes: CR: Chinese restaurants  
 OR: non-Chinese restaurants  
 FF: Fast food shops (excluding American style)

### *Effect of minimum wage on small and medium-size enterprises (SMEs)*

Opponents of a minimum wage argue that a minimum wage would drive SMEs out of business. However, data published by the Census and Statistics Department reveal that compensation for employees accounts for only 10 to 38 per cent of the total expenses of SMEs (see Table 8). It is also interesting to note that the two sectors (wholesale, retail, import-export trade, and restaurants and hotels; and financing, insurance, real estate, and business services) that have the highest percentage of labour costs also have the highest ratio of gross surplus to compensation for employees. In short, the effect of a minimum wage on labour costs in relation to SMEs' total expenses or SMEs' gross surplus may not be as large as increases in other SME expenses.

Furthermore, a survey commissioned by Oxfam Hong Kong in 2005 found that of the 508 SME owners interviewed, over 60 per cent supported minimum wage legislation; while less than 12 per cent opposed (OHK, 2006).

Experiences in other countries and our own preliminary assessment show that negative effects of a minimum wage, if any, are not insurmountable, even for most SMEs.

**Table 7: Compensation of employees for small and medium-size enterprises (SMEs) by selected industry, 2004**

Industry	As proportion of total expenses (%)	Ratio of gross surplus to compensation
Manufacturing	20	0.6
Electricity and gas	21	0.2
Construction	24	0.2
Wholesale, retail, import-export trades, and restaurants and hotels	38	1.2
Transport, storage, and communications	10	0.9
Finance, insurance, real estate, and business services	32	3.8
Total	27	1.5

*Note:* This is the most recent available data. The compensation of employees includes wages and salaries, payments in kind, and employers' social security expenditure.

*Source:* Hong Kong Census and Statistics Department, *Hong Kong Annual Digest of Statistics 2006*, Hong Kong: Hong Kong SAR Government Printer.

It is also worth pointing out that an increasing section of the Hong Kong public support minimum wage legislation. In a 2006 survey, 64.8 per cent of 1,026

respondents agreed that the establishment of a statutory minimum wage would help the working poor improve their situation, as compared to 58.5 per cent in 2005 (OHK and HKPU, 2007; OHK and HKU, 2005).

### **Tax Credit**

In 1980, Milton Friedman advocated a negative income tax as a form of direct cash support to poor families whose earnings fall below a certain level (Friedman, 1980). In Britain and the United States, this cash support takes the form of a tax credit. In Britain, the Working Tax Credit (WTC) is a payment to top up low incomes. Recipients must work a certain number of hours per week, but must earn less than a certain amount in compensation. For example, in the 2005-2006 financial year, a single 25 year old employee working for 30 hours a week and earning only the national minimum wage of £8,025 during that year would receive £1,245 in cash as part of the WTC.<sup>30</sup> In the United States, Earned Income Tax Credit is a similar tax programme, one that reduces the tax liability of low-income families and low-income individuals.<sup>31</sup> It is a supplementary wage-protection measure for people who face constraints such as being the head of a single-parent family or having a disability.

In a sense, the Earned Income Credit is similar to the Low Earning (LE) allowance in the CSSA. But one important feature of the Working Tax Credit or Earned Income Credit is that the department dealing with revenue or tax would operate the programme so as to make it available to all employees when they file their salary returns. Besides providing direct income assistance to low-income families and low-income individuals, this program has the benefit of reducing stigmatisation of low-income groups. It can also help reduce administrative overheads of the Social Welfare Department.

### **Conclusion**

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<sup>30</sup> The current National Minimum Wage, effective from October 1, 2006, is £5.35 per hour. An individual age 25 or above, working 30 hours a week on the National Minimum Wage for a year (counting 50 weeks) would earn £8,025 a year. The tax credit that he or she would receive is calculated from the guidelines in *Child Tax Credit and Working Tax Credit: A guide*, p. 40, produced by HM Revenue and Customs, retrieved from the website of HM Revenue and Customs <http://www.hmrc.gov.uk/> on October 20, 2006.

<sup>31</sup> See Internal Revenue Service, US Department of the Treasury, *Publication 596 (2005), Earned Income Credit (EIC)*, Chapter 4. Retrieved from the website of the Internal Revenue Service, <http://www.irs.gov/> on December 11, 2006.



In this briefing, Oxfam Hong Kong has explored how poverty manifests itself in Hong Kong. We find that poverty has escalated, and that the income gap between the rich and the poor continues to widen. The increase in the number of working poor is a phenomenon that is of particular concern, especially as it is occurring despite economic growth. This situation, in our view, is sufficient for the government to re-examine its policies

Programmes to alleviate poverty should not only be confined to the unemployed, but should also extend to the working poor. The over-representation of women among the working poor shows that there is an urgent need for interventions to eliminate such gender disparity.

Macro-economic development has been the means as well the goal of government policies. To alleviate poverty, the government must ensure that economic development plans address the structural causes of growing inequality, and go hand-in-hand with social development objectives. Policies should aim to create opportunities for full employment and decent pay for its citizens; a more equitable distribution of the benefits of economic growth, and a progressive narrowing of the income gap between the rich and the poor.

The government must go beyond its voluntary Wage Protection Campaign, and establish a statutory minimum wage. It can begin to move towards a universal minimum wage, with a statutory minimum wage for the most vulnerable populations in society — populations that exhibit high levels of persistent poverty.

A minimum wage, in itself, would have immediate positive impacts on the livelihoods of more than half of the working poor in Hong Kong. It would also have a knock-on effect on the incomes of women workers and ethnic minorities in low-income groups.

It would be necessary to assess the effects of a statutory minimum wage on employment in different sectors, both those covered and not covered by a minimum wage. Future studies should examine the effects of a statutory minimum wage on selected occupations, on employment growth, and on the wage level of workers—in particular, low-paid workers. These studies would shed considerable light on the institution of minimum wages in all industries.

Working tax credits could supplement the statutory minimum wage by providing direct income support to families in the lowest income group, to families with

children or with disabled members, and to single-parent families. Further studies of working tax credits could determine their appropriateness to Hong Kong.

Oxfam Hong Kong asserts that, by identifying the problem of poverty and its causes, by acknowledging poverty's negative consequences for the employed as well as for the unemployed, structural steps can be taken on high-level economic development plans, fiscal policies, labour and wage policies, and social welfare policies which can reverse the negative trend to inequality. Through such action, Hong Kong can simultaneously strengthen the competitiveness and the fairness of the economy. Indeed, we contend that, over the long term, one cannot survive in the absence of the other.

- END -

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*The English-language version of this report prevails in the case of any slight differences with the Chinese translation.*