

# Chapter VI

## Rising Cost of Social Welfare: Bill Coming Due on Laissez-Faire Policy

*Late February of this year, an unusual cold wave hit Hong Kong. At Tai Mo Shan in the New Territories, temperatures fell to a record  $-4^{\circ}\text{C}$ . Even on the city streets, temperatures dropped to as low as  $5.3^{\circ}\text{C}$ . In subtropic Hong Kong, where the average temperature for February is no lower than about  $12^{\circ}\text{C}$ , this drop in temperature was detrimental to the sick and elderly. In a five-day period, over 60 homeless and elderly citizens died.*

The Hong Kong government placed 71 homeless in the custody of temporary shelters and called upon senior citizens living alone to exercise caution over their health. Members of the Legislative Council, Hong Kong's Congress, particularly from Democratic Party, lodged strong criticism about what they claimed was a lackluster government relief effort. They even began to threaten to withhold approval of the government's fiscal 1996 budget unless authorities improved welfare benefits for senior citizens.

Social security for the elderly has currently become a focus of political activism not merely due to the deaths resulting from the cold wave. With return to China fast approaching, British authorities are being pressed to make a wide range of changes. There is not only external pressure from China, but also pressure from within the Hong Kong community. Both of these play important roles in instigating change. The debate in the Legislative Council reflects these forces.

In this chapter, the history behind the social welfare policies of the Hong Kong government will be summarized. The process leading up to the recent politicization of the issue of welfare for the elderly will then be analyzed.

### *Origin of Social Welfare Services*

The basic governing philosophy of the Hong Kong government has always been one of laissez-faire. As a result, unlike other Asian NIEs, Hong Kong has always maintained "small government" operating on the policy of minimal intervention.



**A Sunday afternoon**

This principle has allowed the business sector to operate freely and has contributed much to the high rate of economic growth in the colony. At the same time, however, it demands the same level of free competition in the general population as it does of business. Currently, for example, Hong Kong does not have a minimum wage, and there are no legal restrictions over working hours except for children and women. In social security, the government has concerned itself only with ensuring a minimal standard of living in order to maintain social stability. No compulsory national pension plans existed in the past; neither did a national health insurance system. Instead, government hospitals offer low-cost diagnosis and treatment to ensure a minimal level of health in the population.

Such government social welfare originated from the need for relief for refugees. Huge numbers of refugees have flooded into Hong Kong beginning during the civil war between the Nationalists and Communists and continuing through the establishment of the PRC, the Great Leap Forward, and other upheavals on mainland China. In 1945, Hong Kong's population decreased to 600,000 during the Japanese occupation. By the end of the 1950s, this had swelled four-fold to 2.36 million. At the time, the focus of the government's social welfare programs turned to the provision of food and other emergency supplies to refugees and the construction of temporary housing for them.

It was not until 1957 that the Social Welfare Department was established to oversee these activities. The principle which was then adopted, however, left the final responsibility for relief of those in difficulty with their families. Hong Kong's first white paper on social welfare, "The Aims and Policy for Social Welfare in Hong Kong," released in 1965, stressed the traditional Chinese concept of "filial piety" and the custom of mutual aid, and incorporated the optimistic belief that poverty, social instability, and even the effects of natural disasters, could be handled through mutual aid among family members.

### *First Change in Policy*

Change was forced in this government policy beginning at the end of the 1960s, triggered by two riots in the middle of the 1960s. The Hong Kong government forcibly quelled the riots, but at the same time tried to improve social welfare to prevent reoccurrence. First, the government invited welfare experts from the United Kingdom, and studied broadening social welfare benefits from refugees to include lower income earners and the elderly. At that time, a change from the provision of relief supplies to cash was decided on. Beginning in 1971, lower income earners and senior citizens were also provided with subsidies for daily necessities.

At the same time, the government strengthened its indirect control over private charity organizations. Private charity organizations play an important role even now as providers of welfare services. In 1995, close to 90 percent of the people engaged in social work belonged to a private charity organization. Only 10 percent worked directly for the government. The government began to increase subsidies to these organizations in the 1970s and guaranteed their workers treatment similar to civil servants in an effort to improve social welfare services indirectly.

### *Unease over the Growing Number of Elderly and Jobless*

In the 1980s, however, criticism began to mount over existing welfare services. The most heated issue was programs for the elderly. Hong Kong, like Japan, experienced an increase in the

average lifespan and drop in the birth rate in the process of its rapid economic growth. The average lifespan for people in Hong Kong is currently 75 years for men and 80 years for women — one of the highest levels in Asia. The birth rate, at the same time, has fallen to 1.2 percent. As a result, 840,000 of the population were over 60 years old as of 1995. The ratio of the population over 65 to the working age population (15 to 64) has also risen to 13.5 percent. In addition, refugees who had rushed to the colony in the 1950s have now reached retirement age. This has increased the urgency of care for the elderly.

This problem has been aggravated by the change in the industrial structure. Manufacturers who had previously instigated the industrialization of Hong Kong have all moved their production plants to mainland China. Ten years ago, the manufacturing sector accounted for 22.6 percent of the enclave's GDP. Today, this has fallen to 10 percent. The percentage of workers in this sector has fallen from close to 40 percent in 1986 to lower than 17 percent today. In other words, workers in Hong Kong have been transferred from manufacturing other jobs. A large percentage of manufacturing sector workers are middle-aged or older, however, and are finding it difficult to obtain new jobs.

The service sector (78% of GDP), which has played an important role in absorbing the labor force, has been pressed since last year to rationalize due to rising business costs and falling personal consumption. In the four years prior to 1994, the average growth rate in employment in the service sector had stood at 5.2 percent. In 1995, however, this fell to only 2 percent. The unemployment rate had also hovered at about 2 percent in the late 1980s, but rose last year to 3.6 percent — the first time it has climbed to 3 percent in a long while. As a result, "poor senior citizens" have become a focal point of social concern.

### *Government Social Welfare*

In response to this, the Hong Kong government has made changes within its existing service framework. First, it raised the allowance provided to residents over 70 years of age to HK\$510. Further, it launched its "comprehensive social security assistance scheme" on January 7, 1993 in order to integrate existing public aid programs and steadily

increase the amount of payments made under them. In 1994, the government disbursed a total of HK\$2.443 billion. In 1995, this rose to HK\$3.427 billion. During the same period, it raised the average disbursement from HK\$23.27 million to HK\$26.57 million per case. Currently, 100,000 of the 840,000 senior citizens in Hong Kong receive some type of public assistance. Sixty-seven percent of the beneficiaries of the comprehensive social security assistance scheme are elderly.

The government has also enacted a new policy toward private charity organizations. Its previous guarantee of treatment similar to that of civil servants stabilized the positions of workers in such organizations, but resulted in civil servant-like attitudes and led to the bureaucratization of welfare services. In order to solve this problem, the government has proposed to subsidize on the basis not only of input criteria set by the government as was done in the past, but also of the output of the activities of individual charity organizations. In 1995, the government announced plans to experiment with increasing the discretionary authority of charity organizations over the use of subsidies, conditional on assessments of the results of their activities.

When Governor Patten took office, he accelerated efforts to strengthen the social welfare system. The government budget for fiscal 1996, announced on March 1 of this year, included much higher allocations for social welfare than the previous year (increased 20.8%). This tendency of increasing social security costs for the elderly and other needy will most likely continue to rise in the future.

### *Mounting Demands for Social Welfare*

Despite these steps, demands toward the government's social security policy have been rapidly increasing. The birth of political parties and the implementation of direct elections have promoted such a tendency. Direct elections were first introduced in 1991. Governor Patten's reform resulted in increasing the members of constituencies over 20 fold for the elections of the Legislative Council in September 1995. Accordingly, unlike previously when members of the legislature were appointed by the governor, the candidates of different political parties paid close attention to the needs of the general public. A look at the promises made by

candidates elected in 1995 reveals that they were less ideological in nature and more oriented toward increasing welfare benefits, such as stopping the import of foreign labor, opposing hikes in medical fees of the public hospitals and introducing a pension system, namely, direct concerns of the general public.

In the elections of the Legislative Council of 1995, the Democrats made great strides and became the leading party (though the governor remained in charge). One of the groups supporting the election of Democratic candidates was the social welfare organizations. Even leftist labor unions, which generally support the pro-China faction, have been calling for increased welfare benefits for workers and demanding greater social security for retirees. These changes in the political environment are behind demands for fundamental reform of the welfare system by the government.

### *Introduction of a Mandatory Provident Fund System*

The Legislative Council has been warring with the government since 1992 over protection of the elderly. This reflects changes in the system described above. The idea of establishing a community-wide system for retirees is not new, having first been proposed in the Legislative Council in 1974. It has subsequently been discussed several times throughout the 1980s. The Hong Kong government, however, had adopted the business community's stance that compulsory participation in a national pension scheme would be tantamount to compulsory savings, therefore restricting the free use of funds of businesses and private individuals. It also claimed that it could not take responsibility for long-term funds due to its approaching return of sovereignty. As a result, the government has continued to reject the establishment of a public fund.

Due to the aging of the population, the changes in the industrial structure and the effects of direct elections, however, beginning in 1991 calls once again rose from labor unions, welfare-related volunteer organizations and other groups for the introduction of a public pension system. In response, in November of the same year, the Secretary of Education and Manpower announced that the government had decided to begin drafting a community pension scheme. In October of 1992, the

government issued a bill for the establishment of a compulsory pension system for the entire community. This proposal, however, was traditionally opposed by the business community, as well as criticized by the welfare sector as not relieving the current difficulties faced by senior citizens. The fact that the government would not assume final responsibility for the management and supervision of the fund posed another problem.

Governor Patten's proposal for an old-age pension arose next in December 1993. According to the draft bill released in June 1994, this plan would have featured (1) a low pension fund premium (1.5% of salaries paid by the business owner and worker), (2) immediate payments to the elderly, and (3) HK \$10 billion in governmental provisions for the initial funding.

The business community, however, opposed the plan as leading to rising personnel costs. Further, the question of who would be responsible for operating and managing the system to counter long-term inflation remained unanswered. China denounced the proposal through the leftist media claiming that the plan was a plot to force the future government of the special administrative region into a deficit. In the end, the government withdrew the plan in January 1995 claiming that a sufficient consensus had not been reached in the public during the three-month period of discussion.

Faced with this turnabout in policy by the government, Democratic Party, social welfare groups and the labor community organized protests. In June of the same year, the government consequently revised the Community-wide Mandatory Provident Fund plan and submitted it to the Legislative Council.

Democratic Party and leftist labor unions opposed the plan, demanding instead the revival of the old-age pension scheme and increase of allowances for the elderly (to over HK\$2,000 per month). On July 27, 1995, however, the government proposal was approved at the Legislative Council. In November of last year, budgetary allocation for the Mandatory Provident Fund scheme was passed by a slight margin of 30 to 26. In February and April of this year, budgetary allocations for the establishment of the Mandatory Provident Fund Office were also passed — again by slight margins.

Time played an important role in bringing about this result. If the current government proposal failed, it was clear that the establishment of

any new social security system would be impossible before 1997. China has not recognized the legitimacy of the current Legislative Council and has publicly announced to dissolve it immediately following return.

### *Birth of Large-Scale Long-Term Funds and Trends in the Financial Sector*

The government plan was passed due to the approval from the business community, which formerly tended to oppose pension schemes. The new Provident Fund will mean new business opportunities for the financial community, the powerful member of Hong Kong business community along with the real estate developers, since mandatory contributions to the pension scheme will require management of large-scale long-term funds. The government estimates that if the compulsory pension fund scheme is implemented, HK\$30 to 40 billion, or the equivalent of 4 percent of the GDP, will be put into the fund every year.

The insurance sector and other financial institutions have welcomed the passage of the government bill. Due to the added burden on employers from premiums, as well as the paperwork involved in financial statements also required, however, small businesses, which have rarely participated in insurance programs in the past, have been concerned about rising personnel costs. The government has made certain promises in order to convince the Liberal Party, which is mostly comprised of businessmen, for its bill. These include pledges (1) not to raise premiums in the future, (2) to withdraw its bill if the possibility rises of the Legislature demanding and passing such an increase, and (3) to allow allowances for dismissals and long-term employment allowances to be used to offset premiums. Democratic Party criticizes these as undermining the function of the Legislature. Even before this, gridlock between the Legislative Council and the government resulted in a major delay in the establishment of the fund office. If this situation continues, the Mandatory Provident Fund scheme may very well not be launched until after 1997 return.

As seen from the description above, future rising social costs of welfare are evident in the recent changes in the welfare system. The era of "laissez-faire" welfare is quickly ending.