

Widening Income Distribution in Post-Handover Hong Kong

Hon-Kwong Lui



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Before the handover to China in 1997, Hong Kong's economic growth was very strong and the unemployment rate dropped to a record low of 2.2 per cent. In recent years, the widening income dispersion in Hong Kong has caught public attention. This book investigates the economic development and changes in income distribution of Hong Kong from different perspectives.

Based on the latest empirical evidence for Hong Kong, the book examines the relationship between economic restructuring and rising income disparity. Public housing programmes in Hong Kong affect half of the population directly and the other half indirectly. This book assesses the redistributive effect of public rental housing on income distribution. Moreover, Hong Kong embarked on an ambitious expansion programme of tertiary education in 1989. The expansion represents an exogenous increase in the supply of university graduates and the book also evaluates the impact on income distribution. It investigates the income dispersion among and between natives and immigrants.

Researchers, politicians and policy makers will be interested to learn about the causes of rising income dispersion in post-handover Hong Kong uncovered in this book. Although economic restructuring is named as the prime suspect behind rising income inequality, the empirical evidence proves otherwise. The book will also be of interest to policy makers whose work has implications for social security systems and income disparity.

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To Veronica, Cheryl and Lancelot

Contents

<i>List of figures</i>	ix
<i>List of tables</i>	x
<i>Preface</i>	xii
<i>Acknowledgements</i>	xiii
1 Introduction	1
1.1 <i>Economic growth and income distribution</i>	2
1.2 <i>Economic restructuring and income disparity</i>	3
1.3 <i>The expansion of higher education</i>	4
1.4 <i>Public housing and its redistributing effects</i>	5
1.5 <i>Increasing poverty and the working poor</i>	6
1.6 <i>City of immigrants</i>	7
1.7 <i>Data sets</i>	8
2 Economic growth and income distribution	10
2.1 <i>A brief literature review</i>	10
2.2 <i>Sustained economic growth</i>	12
2.3 <i>Gini Coefficient and other measures of income inequality</i>	16
2.4 <i>Household income distribution</i>	19
2.5 <i>Income distribution of the working population</i>	24
Appendix: <i>Decomposition of household income distribution</i>	26
3 Economic restructuring and rising income inequality	28
3.1 <i>Development of the various economic sectors</i>	29
3.2 <i>Income distribution by industry</i>	33
3.3 <i>Decomposition of rising income inequality by industry</i>	37
3.4 <i>Income distribution by occupation</i>	39
3.5 <i>Decomposition of rising income inequality by occupation</i>	42

4	The effects of the expansion of tertiary education	45
4.1	<i>The expansion of tertiary education</i>	46
4.2	<i>A brief literature review</i>	48
4.3	<i>Improving the quality of the labour force</i>	51
4.4	<i>Returns to education and earnings premium for higher education</i>	56
4.5	<i>Income distribution by education</i>	62
4.6	<i>Decomposition of rising income inequality by education</i>	63
5	The redistributive effect of public housing policy	66
5.1	<i>Introduction</i>	66
5.2	<i>Housing subsidies: an international perspective</i>	68
5.3	<i>Empirical framework</i>	70
5.4	<i>Data set</i>	74
5.5	<i>Assessing the redistributive effect</i>	76
5.6	<i>Sensitivity analysis of income redistribution</i>	79
5.7	<i>Conclusions</i>	82
6	Poverty and the working poor	83
6.1	<i>What is poverty?</i>	83
6.2	<i>Absolute poverty</i>	84
6.3	<i>Relative poverty</i>	86
6.4	<i>Rising income inequality equals rising poverty?</i>	87
6.5	<i>How do we define a poverty threshold in Hong Kong?</i>	88
6.6	<i>The working poor</i>	94
7	Immigrants and natives	100
7.1	<i>A brief review of Chinese immigration to Hong Kong</i>	100
7.2	<i>The right of abode in Hong Kong</i>	104
7.3	<i>A brief review of the literature</i>	106
7.4	<i>Population by place of birth</i>	109
7.5	<i>Income distribution by place of birth</i>	111
7.6	<i>Decomposition of rising income inequality by place of birth</i>	117
8	Summary and concluding remarks	120
8.1	<i>Summary of findings</i>	120
8.2	<i>Directions for future research</i>	124
	<i>Notes</i>	126
	<i>References</i>	130
	<i>Index</i>	141

Figures

2.1	Gross domestic product (year-on-year percentage change)	13
2.2	GDP per capita	15
2.3	Lorenz curve	17
2.4	Two Lorenz curves	18
3.1	GDP by broad economic sector	30
3.2	Employment share of major industries	32
4.1	Population aged 15 and over by educational attainment	53
4.2	Working population by educational attainment	54
4.3	Returns to education by educational attainment	61
6.1	Percentage share of Comprehensive Social Security Assistance recipients in the population	94
6.2	The proportion of the working poor (excluding foreign domestic helpers)	99
7.1	Gini Coefficient by place of birth	116
7.2	Variance of log income by place of birth	117

Tables

1.1	Labour force and unemployment rate in Hong Kong: before and after the handover	3
2.1	Gini Coefficient by household size	20
2.2	Distribution of households by household size	21
2.3	Log variance of household income by household size	22
2.4	Decomposition of change in variance of log household income	24
2.5	Income distribution of the working population	25
3.1	Employment share by industry	31
3.2	Gini Coefficient of main employment income by industry	34
3.3	Log variance of main employment income by industry	37
3.4	Decomposition of change in variance of log main employment income by industry	39
3.5	Working population and income dispersion by occupation	41
3.6	Decomposition of change in variance of log main employment income by occupation	43
4.1	Population aged 15 and over by educational attainment	52
4.2	Mean monthly main employment income by educational attainment	57
4.3	Returns to education (years of schooling)	58
4.4	Returns to education (education dummies)	60
4.5	Working population and income dispersion by education	63
4.6	Decomposition of change in variance of log main employment income by education	64
5.1	Household characteristics by type of housing	75
5.2	Household income decile distribution by type of housing	76
5.3	Regression on monthly rent	77
5.4	Multiple measures of income inequality	78
5.5	Sensitivity analysis of income redistribution	80

6.1	Comprehensive Social Security Assistance scheme: standard rates (Rates from 1/2/2012)	90
6.2	Number of Comprehensive Social Security Assistance cases by category	92
6.3	Number of Comprehensive Social Security Assistance recipients	93
6.4	Minimum allowable wage for foreign domestic helpers (Hong Kong dollars)	96
6.5	Average monthly Comprehensive Social Security Assistance payments by household size (Hong Kong dollars)	97
6.6	Median main employment income of the working population (excluding foreign domestic helpers) (Hong Kong dollars)	98
7.1	Population growth by component: before the handover	102
7.2	Population growth by component: after the handover	103
7.3	Population by place of birth	107
7.4	Population by ethnicity, 2001–2011	110
7.5	Income dispersion by place of birth	111
7.6	Human capital regression (place of birth)	113
7.7	Decomposition of change in variance of log main employment income by place of birth	118

Preface

My research interest in income distribution was ignited by a famous economics professor of the University of Hong Kong. In 1996, he invited me to take part in the Hong Kong Economic Policy Studies Series and write a monograph on economic growth and income distribution of Hong Kong. Since then I have maintained a strong interest in the topic and published several journal articles, which has further increased my knowledge of it. After the handover, some politicians and pressure groups frequently mentioned rising income disparity and working poverty. On many occasions, they put an equals sign between widening income dispersion and rising poverty. Whenever I read this kind of news, usually presented with some alarming estimates, I would get the impulse to write another monograph to correct the misconception and put forward more reliable estimates. But once I considered the tremendous effort involved in writing a monograph alone, the drive to write vanished instantly. The inception of this monograph arose from a short conversation with Yongling Lam of Taylor and Francis during her short visit to Hong Kong in summer 2011. She encouraged me to submit a book proposal to the publishers for review. I would like to thank Yongling for her encouragement and for allowing me to work with this wonderful publisher. Although this monograph attempts to answer some questions about income inequality and poverty, its main aim is to encourage people to uncover the truth by studying the empirical evidence.

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I would like to thank my family, whose understanding of my frequent absences and inability to meet domestic commitments made it possible for me to complete this monograph. It is a special joy to thank the Commissioning Editor Yongling Lam, and Production Editor, Lindsey Hall, at Taylor and Francis. I would also like to thank Rob Brown of Saxon Graphics Ltd for managing the production of the book and Ellen Grace for copy-editing it.

1 Introduction

‘The Death of Hong Kong’

Fortune magazine, 29 June, 1995

‘Oops! Hong Kong is Hardly Dead’

Fortune magazine, 28 June, 2007

On 1 July 1997, the Chinese government resumed exercise of sovereignty over Hong Kong and at the same time marked the end of British rule in Hong Kong. The transfer of sovereignty over Hong Kong from the United Kingdom to China is known as ‘the Handover’ internationally. Thousands of reporters from media all over the world flocked to Hong Kong to witness and report this historic moment. At that time, most people were sceptical of the so-called ‘One Country, Two Systems’ concept put forward by Deng Xiaoping and predicted Hong Kong would lose its lustre soon after the handover. The general sentiment in the Western world was best reflected in the cover story, ‘The Death of Hong Kong’, published in *Fortune* magazine in 1995, which predicted that Hong Kong would lose its role as an international commercial and financial hub after returning to China. Ten years after the handover, *Fortune* magazine wrote another story ‘Oops! Hong Kong is Hardly Dead’ and publicly admitted that it had been wrong.

In 2010, Hong Kong’s GDP per capita was 67.3 per cent of that of the United States. However, this ratio cannot fully reflect the standard of living of an average Hong Kong resident. This ratio uses nominal GDP per capita and relies on prevailing exchange rates, which not only reflects the differences in the cost of living in different countries but also distorts the differences in real income. A widely used method to adjust for the differences in cost of living is the purchasing power parity method. Based on the purchasing power parity approach, the 2011 estimates of GDP per capita of Hong Kong and the United States were US\$ 49,300 and US\$ 48,100 respectively (US Central Intelligence Agency 2012). This stylized fact suggests the average living standard of Hong Kong residents was comparable to, if not higher than, that of the United States. To develop from a fishing port to becoming a service economy with living standard comparable to that of the United

2 Introduction

States is a remarkable achievement. Although Hong Kong is proud of this, are the general population able to enjoy the fruit of the economic success? This monograph aims to study the income distribution of Hong Kong from a variety of perspectives.

1.1 Economic growth and income distribution

One of the best ways to see how Hong Kong performed before and after the handover is to study the labour market conditions, and to look at the changes in unemployment rate in particular. Table 1.1 presents the statistics on the labour force and unemployment rate. From the Table, we can see that before the handover Hong Kong's economy was strong and the labour market was vibrant with full employment, in the practical sense, for a long period. The unemployment rate hit a record low of 1.1 per cent in 1989. During the period from 1982 to 1996, the size of a labour force increased from around 2.5 million in 1982 to around 3.16 million in 1996. It means the total working population increased by 660,000 persons, or 26.5 per cent, in fourteen years. This was an enormous increase in a small city like Hong Kong and would create substantial pressure on its economy.

Even if we put aside housing problems, health care problems and infrastructural problems associated with the increase in population, Hong Kong needed to find ways to create job opportunities for this additional manpower. Table 1.1, however, presents a striking picture. From 1982 to 1989, while the working population kept increasing from 2.5 million to 2.75 million, the unemployment rate kept declining from 3.6 per cent to 1.1 per cent. The empirical evidence suggests that Hong Kong was not only able to create new jobs to accommodate the extra manpower, but it was also able to reduce the unemployment rate further. When the labour force continued to increase, the unemployment was still consistently maintained at a very low level.

Before the handover, Hong Kong's economy was booming and looked promising but the historic handover in 1997 marked an unwelcomed turning point. After the handover, the lowest unemployment rate was recorded in 1997, which stood at 2.2 per cent. A year later, the unemployment rate more than doubled to 4.7 per cent and further rose to 6.2 per cent in 1999. Hong Kong was not only unable to create new jobs to accommodate the increasing labour force but also experienced a net loss in number of jobs.

Before the handover, the income inequality problem worsened despite healthy economic growth. The Gini Coefficient increased from 0.451 in 1981 to 0.518 in 1996 (Census & Statistics Department 1993, 2007). After the handover, the income dispersion continued to widen while Hong Kong experienced economic recession for a few years. The economy picked up again with positive growth in more recent years. The 2011 Population Census results revealed that the latest Gini Coefficient rose to 0.537. Chapter 2 investigates the relationship between economic growth and income distribution of Hong Kong. It also examines whether Hong Kong residents can enjoy the fruit of the economic success or if they have been hard hit by economic downturn.