

**Commission on Strategic Development  
Committee on Social Development and Quality of Life**

**Income Inequality and Social Mobility**

**I. Purpose**

This paper outlines the broad picture related to income inequality and social mobility in Hong Kong, and invites Members to discuss the strategic direction and strategies on this subject.

**II. Background**

2. The Chief Executive highlighted in his latest Policy Address in October 2006 that it was important for the community to look for ways to resolve conflicts and promote social harmony. He noted that those people engaged in global, high value-added economic activities in Hong Kong were able to earn high income. Yet, low skilled workers were facing increasing economic hardship<sup>1</sup>. This raises a key issue of whether the situation of income inequality and social mobility in our society would affect the social harmony in Hong Kong.

**III. Definitions**

(a) Income Inequality

3. Income inequality generally refers to the extent of disparity between high and low incomes in a society<sup>2</sup>. For a society in which the

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<sup>1</sup> Address by the Chief Executive the Honourable Donald Tsang at the Legislative Council meeting on 11 October 2006 - Proactive Pragmatic Always People First, para 75, 2006

<sup>2</sup> Social Report 2006, Ministry of Social Development, New Zealand, <http://www.socialreport.msd.govt.nz/economic-standard-living/income-inequality.html>

cumulative income earned is concentrated at a few groups of people, the situation of income inequality is considered to exist.

(b) Social Mobility

4. Social mobility describes the movement or opportunities for movement of an individual between different social groups throughout the course of his or her life in a society<sup>3</sup>. It may be referred to movements between social classes or occupational groups. However, there is little serious investigation on this subject in Hong Kong from socio-economic status point of view<sup>4</sup>. This may be partly due to the difficulty in defining social class which changes over time and varies from cultural and social circumstances. In a market economy like Hong Kong, social status and economic wealth are strongly correlated and often conflated. Income (or earnings) mobility is therefore a good proxy for the discussion of social mobility in Hong Kong.

#### **IV. Development of Globalisation and World Cities - Impacts on Income Inequality and Social Mobility**

(a) Development of World Cities

5. International researches suggest that world cities such as London and New York are experiencing a widening income inequality. As Hong Kong is progressively moving away from an industrial production-based economy towards a producer service-driven world city in the last two decades, the experience of other world cities would be relevant to our discussion on this subject.

6. The emergence of world cities entails a major cluster of high level business services providing a commanding position in the organisation of the world economy, a key market place for finance and specialised services for firms, and a major centre of innovation. In performing such

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<sup>3</sup> Performance and Innovation Unit, Social Mobility – A Discussion Paper, The Prime Minister's Strategy Unit of the Cabinet Unit, The United Kingdom Government, April 2001.

<sup>4</sup> A latest attempt is being carried out by Lui Tai-lok's research study – Who gets ahead (or stays behind) : life chances and social mobility in Hong Kong. The study findings are yet to be available.

transnational functions, those world cities employ a large number of professionals and transnational elites supported by ancillary staff. In parallel, there is also a growth in employment of personal services and other amenities catering for the new elites, e.g. luxury boutiques, entertainment, hotels, restaurants, etc. The employment growth tends to cluster at the top and the bottom ends of the occupational and income distribution at the expense of the middle-ranking workers. Sometimes, it is called as an “hour-glass” social structure or a dualisation in the organization of service industries.

7. Given such economic and employment structures, a widening of income inequality and distribution is commonly featured in these cities. The widening inequality is primarily due to two major reasons. First, the growing inequality in the profit-making capacities of different sectors and in the earning capacities of different types of workers, i.e. the huge income gaps between high-skilled and low-skilled workers. Secondly, the growing popularity of casual or part-time employment for lower-end jobs often filled by new migrants from rural areas or abroad<sup>5</sup>.

(b) Globalization and advancement of technology

8. Globalization and advancement of technology have also brought about major structural changes to the global economy. Through the application of information technology and the Internet, the demand for routine jobs that require moderate skills has been reduced considerably. At the same time, multinational enterprises find it much easier and more cost-effective than before in tapping the ample supply of both skilled and low-skilled workers around the world. Examples of globalization of economic activities include the Pearl River Delta, which provides abundant supply of low-cost and low-skilled workers for the world manufacturers, and the Bangalore of India and Zhongguancun in Beijing of China, which provide the lower-cost but skilled, white-collar, and middle-class skilled workers to substitute the higher-cost workers in developed economies. Such form of international division of labour is a new experience to the world labour market.

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<sup>5</sup> Sassen S, 1998, Globalisation and its Discontents, New York : New Press, p.137, and Friedman J, 1995, The world city hypothesis in P. L. Knox and P.J. Taylor (Eds) World Cities in a World-System, p.324, Cambridge : Cambridge University Press.

9. As a result of globalization and the advancement of technology, the bargaining power of not only low-skilled, but also middle-class and moderate-skilled labour on wages and income is being substantially reduced. This partly explains the widening income differentials by skill level in most of the countries in the transition towards a knowledge-based economy<sup>6</sup>.

## **V. Income Inequality - Hong Kong's Situation**

10. Since 1990s, our economy has been undergoing an on-going structural transformation from a manufacturing-based economy to a service-oriented, and later, towards a higher value-added and knowledge-based economy. With the development of Hong Kong into a world financial, trade and business centre, we are becoming Asia's world city. The income disparity and inequality experienced in other world cities also happen in Hong Kong.

11. There is evidence that income inequality in Hong Kong has been increasing over the last two decades<sup>7</sup>. This is closely related to Hong Kong's moving towards a producer service-driven world city<sup>8</sup> against the background of globalization and technological changes. Taking account of the socio-demographic characteristics of our population, education and migration stand out as the two most important factors to explain the widening earning differentials between 1981 and 2001<sup>9</sup>. Meanwhile, the capability of the gender factor to explain such differentials has diminished over time. The more specific observations on income inequality over the period of 1981 - 2001 are :

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<sup>6</sup> Arthur S Alderlson and Francois Nielsen, "Globalisation and the great U-turn : income inequality trends in 16 OECD countries", *The American Journal of Sociology*, Chicago, March, 2002, Vol 107, pp. 1244-1256

<sup>7</sup> LAM Kit-chun and LIU Pak-wai, "The Structure of Earning Inequalities in Hong Kong", paper prepared for the 6th Baptist -Tsinghua Joint Conference, May 2006, and Stephen W K Chiu and T L Lui, 2004, "Testing the Global city – Social Polarisation Thesis : Hong Kong since the 1990s", *Urban Studies*, Vol. 41, No. 10, September 2004, pp 1863 -1888

<sup>8</sup> Stephen W K Chiu and T L Lui, 2004, [see 7]

<sup>9</sup> LAM Kit-chun and LIU Pak-wai, [see 7] and Does Higher Education Expansion Increase Earnings Inequality? Evidence from Hong Kong, April 2006

- the rate of growth in income for those at the top was much faster than for those at the bottom;
- there was no categorical evidence to indicate *absolute* polarisation, i.e. people at the top were becoming better-off while those at the bottom are becoming worse-off. The observed widening in income disparity could be consistent with the strong economic growth and increase in overall income over the period;
- 13.7% of the earnings differentials between the top and bottom deciles of the working population (excluding foreign domestic helpers) could be explained by a difference in education composition in 1981 Census and the proportion has increased significantly to 41% in 2001 Census;
- there was an overall narrowing of the gender income gap mainly due to the increase in the proportion of women with tertiary education and earning high income. The structural change of Hong Kong from a manufacturing-oriented to a service-oriented economy in the past two decades has also helped open up job opportunities for females; and
- the contribution of migrant factor<sup>10</sup> to explain the earnings differentials between the top and bottom deciles has also increased from 1.7% in 1981 Census to 4.6% in 2001 Census.

12. There was a notable decline in average monthly household income for households in different income strata, ranging from 9 – 14% between 2001 and 2004<sup>11</sup>. The situation had been further compounded by the downturn of the property market during that period of time. It had created a major negative effect on depreciation of wealth and even bankruptcy among property owners. The above had raised concerns on

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<sup>10</sup> The migrant factor was measured by the number of years of residence in Hong Kong at the relevant census time as well as whether they were born in the Mainland or other countries. For instance, new migrants referred to those who were born in the Mainland and have resided in Hong Kong for less than 7 years at the time of census (or 5 years or less in the Census data before 1991). Other new migrants who were born in other countries were under a separate category.

<sup>11</sup> The decline was more moderate at 3 – 9 % after adjusting for price changes between 2001 and 2004.

whether the apparent broad-based decline of monthly household income over that period would represent a prolonged aggravation of poverty, besides widening income inequality, in Hong Kong. Fortunately, there is some relief when the overall average monthly household income rose back by 6% between Q1-Q3 2004 and Q1-Q3 2006, in tandem with the robust economic recovery. Households in different income strata all enjoyed increases in income over that period, ranging from 5-7%.

(a) Education

13. The findings of some earlier studies that education is the major factor contributing to the increase in income inequalities in Hong Kong should be construed in a proper context. It should not be interpreted that education expansion is the source of inequality at the expense of the poor and other vulnerable groups. Instead, the findings reflect the increasing importance of education in the global knowledge-based economy, as education can enhance the productivity and earning capacity of an individual and also the economy as a whole. In this sense, education could play a strong social equalization role both in terms of enhancing intra- and inter-generational mobility, particularly so in Hong Kong where education facilities at all levels are heavily subsidised by the public sector and available to students from all socio-economic backgrounds. With the continued expansion of education at post-secondary and above levels and the increase in supply of university graduates, education should in fact help reduce income inequality in Hong Kong in the longer term.

(b) Migration

14. On the effect of migration on income inequality, it is recognised that we are having a constant inflow of low-skill and low-education level of Mainland new arrivals to Hong Kong. Between 1997 and 2005, there were some 293 200 Mainland arrivals aged 15 - 64 migrated to Hong Kong under the One-way Permit Scheme. The majority of them have entered into the lower-end job market<sup>12</sup>. Such a continued supply of low-skill and

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<sup>12</sup> Zhao Xiaobin, Zhang Li, and Sit Tak O Kelvin, Income inequalities under economic restructuring in Hong Kong, Asian Survey – A Bimonthly Review of Contemporary Asian Affairs, University of California Press, Vol. XLIV, No.3, May/June 2004, pp 442-473

low-wage labour force is unlikely to change in the foreseeable future as long as the One-way Permit Scheme remains in operation. It would likely continue to widen our income inequality as earnings of the upper-end jobs in such sectors as financial, business and professional services continue to grow. This is similar to other world cities where the low-end jobs are also filled up by newcomers from rural areas or migrants, legal and illegal, to the cities. Nevertheless, the migrants or newcomers who engage in the low-wage types of work provide the requisite support to the flourishing world cities' service-oriented economic activities. It is worth noting that many of the low-wage jobs are not particularly sought after by local people. The new migrants to a large extent fill the gap to meet the demand in this respect. Their contribution to our economic development should not be overlooked.

(c) Gini Coefficient

15. Against the above background, it may be useful to discuss the commonly quoted aggregate summary indicator to reflect the level of income equality of a society - Gini Coefficient<sup>13</sup>. Table 1 summarises the Gini Coefficient of Hong Kong which shows an increase from 1981 to 2001. Many critics have used this as an indication of worsening income inequality and distribution of wealth in Hong Kong<sup>14</sup>.

Table 1 – Gini Coefficient of Hong Kong between 1981 - 2001

	1981	1986	1991	1996	2001
Gini Coefficient	0.451	0.453	0.476	0.518	0.525

Source: Census and Statistics Department (1992) and (2002)

16. As illustrated in earlier paragraphs, the trend of widening income inequality or disparity in Hong Kong is due to a combination of factors. At macro-level, the forces of globalisation and technology innovation have forced upon Hong Kong to evolve in order to survive and thrive. We are

<sup>13</sup> Gini Coefficient is a measure of the difference between perfect equality and actual distribution of income among the people in the society. It is defined as a ratio with values between 0 (perfect equality, in which each household has the same income) and 1 (perfect inequality, in which one household has all the income). An increase in the Gini Coefficient generally infers as a widening of income disparity.

<sup>14</sup> Zhao Xiaobin, Zhang Li, and Sit Tak O Kelvin [see 12]

transforming into a world city economy which is characterised by an increasingly keen demand for workers with better knowledge and skills, and henceforth the larger income increases for workers at the upper segment of the occupational hierarchy than those at the lower segment. This has led to an inevitable widening of income disparity. This pattern is similarly found in other world cities.

17. In interpreting the increase in Gini Coefficient in Hong Kong over time, one should be careful that it does not necessarily mean a worsening of the poverty situation as both the rich and the poor may experience income increase simultaneously, albeit at different rates. For example, there is a decreasing proportion of full-time employees (excluding foreign domestic helpers) earning less than \$15,000 a month from 77% to 66% between 1995 and 2005<sup>15</sup>, and at the same time a rise in the share of those earning more, from 23% to 34%.

18. Moreover, the Gini Coefficient in Hong Kong does not take into account the income redistribution effect brought about by taxation, social security and Government subsidies in various services. It has been estimated that the Gini Coefficient would be reduced if the income redistribution effects are included. This makes it difficult to compare Hong Kong's situation with other economies where survey methodology and data collected may be different. It is also open to argument of applying the Gini Coefficient to compare Hong Kong, as a small city economy, with major overseas countries with a much bigger size and more diversified economic structure. Yet data series on other world cities such as New York and London are not available for meaningful comparison.

## **VI. Social Mobility – Hong Kong's Situation**

19. Evidence from a recent study<sup>16</sup> indicated that earnings of workers in Hong Kong are generally mobile over a long period of time. This

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<sup>15</sup> Although the earnings were compiled based on nominal employment earnings, the price levels for 1995 and 2005 were almost the same (the Composite CPI figures in 1995 and 2005 were 100.4 and 100.3 respectively). Therefore, no significant difference between real and nominal earnings.

<sup>16</sup> James P. Vere, "Special Topic Enquiry on Earnings Mobility", Hong Kong Institute of Economics and Business Strategy, The University of Hong Kong, September 2006



shows that Hong Kong is generally a socially mobile economy. Workers who were capable and willing to work hard were likely able to move up the earnings ladder over time, regardless of their initial income level. On the other hand, individuals who had not enhanced skills in step with the evolving work requirements were more likely to move down the earnings ladder. Reflecting this,

- ♦ 55% of workers experienced earnings mobility, with 29% of workers moving up and 26% moving down;
- ♦ 42% of workers in the bottom quintile group (the lowest 20% of the earnings distribution) in 1996 succeeded in moving up the earnings ladder in 2005; and
- ♦ 68% of workers in the top quintile group (the highest 20% of the earnings distribution) in 1996 managed to maintain their top position in 2005.

20. Whereas male workers and younger workers tended to have higher earnings mobility, older workers, persons engaged in agriculture or manufacturing, and workers in elementary occupations were the ones more likely to be trapped in the lowest earnings quintile group. Nevertheless, education was found to be very effective in reducing the likelihood of being trapped in such a group, particularly for young people. In a general sense, education was also a key to enhancing upward earnings mobility and reducing the downward mobility.

21. However, the earnings mobility of workers in Hong Kong has decreased generally during the period of 1996 to 2005 as compared with the period of 1991 to 2000<sup>17</sup>. While upward mobility during the period of 1996 to 2005 might have been restrained as Hong Kong was suffering from a series of setbacks including property slump and prolonged deflation following the Asian financial crisis, the global economic downturn and the outbreak of SARS, downward mobility was also reduced as adjustments in the labour market at that time were probably made through corporate downsizing and retrenchment, and less through pay cuts.

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<sup>17</sup> James P. Vere, [see 12]

22. Despite the general decrease in earnings mobility over the period of 1996 and 2005, people engaged in several sectors exhibited relatively high mobility as compared with those in other sectors. The major characteristics of the sectoral earnings mobility observed in Hong Kong over this period are summarised below:

- ♦ high upward earnings mobility among persons engaged in the group of “financing, insurance, real estate and business services” sector may be attributable in part to the resilient performance of this particular sector during the recent downturn, and the greater demand in respect of skilled workers; and
- ♦ high downward earnings mobility among persons engaged in construction and in craft and related work is probably due to the contraction of the construction sector as well as workers’ inability to shift to other trades and industries, in particular the service sectors.

23. Inter-generational mobility has generally been referred to as the degree to which that individual's offspring and subsequent generations move up and down between different social groups. Local evidence<sup>18</sup> suggested that there was a positive correlation between lifetime earnings of father and child. However, inter-generational poverty was not prevalent as 87% of children with fathers in the lowest earning quintile group were found to have moved up from the bottom quintile group. On educational attainment, while a positive correlation was observed with regard to inter-generational educational attainment, those children whose fathers had lower educational attainment of only primary level still had fairly good opportunities to receive secondary or higher education, with the chance being estimated at more than 91%.

24. Some recent observation has postulated that the middle class families have been rigorously protecting their children from downward mobility by enhancing their children’s social skills, international exposure, and social networks. Such added advantages are considered as necessary in building up the social mobility asset of their second generation as access to higher education has improved significantly to all families in Hong Kong

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<sup>18</sup> James P. Vere, [see 12]

over years. In view of the above, some argue that the low-income families children would have much less resources available for acquiring the added advantages. This will put them less competitive than the middle-class families children. If this persists, it might affect the inter-generational mobility of the low income families.

## **VII. Government's Efforts**

25. Income equality and social mobility are important to the promotion of a harmonious society. As such, the Government has a role to create a conducive environment for personal development so as to make the best use of the talents of everyone, to provide equal opportunities for individuals of different backgrounds to ascend the social and economic ladder, and to alleviate the hardship to those adversely affected.

26. Overall, a sustained economic growth is the key to provide a sustained increase in real income growth and social mobility to the society. The Government's investment in human resources, and efforts to enhance Hong Kong's competitiveness and business environment to stimulate our economic growth should also be seen as positive steps towards the social direction of promoting social mobility and equality.

27. Other manifestations of the Government's efforts include:

- At the macro level, promoting overall economic development and growth with a view to generating more jobs in the open market;
- On education, major public investment has been put into the free and compulsory 9-year basic education, the heavily subsidized higher education services, as well as subsidised child care and kindergarten education;
- Extensive training and retraining programmes for unemployed persons, in-service workers and youths to equip them with the necessary skills to adapt to the rapid economic restructuring. Notable examples include the Employees Retraining Scheme, Skills Upgrading Scheme, Continuing Education Fund, Project Yi

Jin, and Youth Sustainable Development and Engagement Fund<sup>19</sup>. The Government is also developing a Qualifications Framework, which provides a platform for lifelong learning and enables learners to progress along a clear articulation pathway;

- Provision of heavily subsidised public housing, medical care and other social services to help those in need, in particular the low-income groups;
- Income redistribution through the salaries tax system with generous allowances as well as exemptions, so that low-income earners are basically falling outside the tax net;
- Supporting vulnerable and disadvantaged groups with financial difficulties through the Comprehensive Social Security Assistance Scheme to meet their basic needs;
- Supporting vulnerable and disadvantaged groups to enhance their employment opportunities, including:
  - The Support for Self-reliance (SFS) Scheme is designed to encourage and assist the able-bodied unemployed on CSSA to move towards full-time paid employment through the Active Employment Assistance Programme, Community Work Programmes and Disregarded Earnings;
  - Non-government organizations (NGOs) are commissioned to operate Intensive Employment Assistance Projects to provide tailor-made employment assistance to employable CSSA recipients and near-CSSA unemployed. NGOs are also commissioned to run the Special Training and Enhancement Programme – My STEP and the District Employment Assistance Trial Projects for young CSSA unemployed recipients and long-term and hard-to-assist CSSA able-bodied unemployed respectively to help them find and sustain employment;

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<sup>19</sup> A \$50 million Youth Sustainable Development and Engagement Fund was set up in 2004 to fund pilot projects that could motivate non-engaged youths for re-engagement or prepare them for training or employment opportunities in certain industries.

- The New Dawn Project is implemented to assist single parents and child carers on CSSA whose youngest child is aged 12 to 14 to enhance their capacity for self-help, integrate into society and move towards self-reliance through engagement in work;
- The Employment Programme for the Middle-aged and Work Trial Scheme to assist job-seekers having special difficulties in finding jobs, as well as the Work Orientation and Placement Scheme for the disabled job-seekers;
- New migrants support programmes coordinated by the Home Affairs Department -
  - The Steering Committee on New Arrival Services and District Coordinating Committees have been set up at central and district levels respectively to coordinate the work of and services provided by the Government bureaux/ departments and various NGOs in facilitating the smooth integration of the new migrants into the community;
  - A Service Handbook for New Arrivals has been published to provide information about the range of public services available to new arrivals.
- Continued learning for Women: through the Capacity Building Mileage Programme, a key initiative of the Women's Commission under Government funding, to provide a flexible learning programme tailored to the needs and interests of women, which is delivered through radio broadcasting and supplemented by optional learning activities and face to face courses delivered by NGOs; and
- Setting up the Commission on Poverty to take stock of the various existing policies and to look into areas where the Government's efforts could be further improved. The priorities are to prevent inter-generational poverty, to encourage work, and to strengthen the district-based approach in alleviating and preventing poverty.

## **VIII. Strategic issues for members' consideration**

28. Against the above background, Members are invited to consider the following strategic issues:

- (a) Would the current situation of income inequality and social mobility in our society significantly affect the development of social harmony in Hong Kong?
- (b) What are the other key factors that would likely increase the income inequality or lower the upward social mobility of our society in the foreseeable future?
- (c) What should be the strategic direction for the Government in tackling income inequality and social mobility?
- (d) For the current efforts of the Government which help address income inequality and social mobility, are they in the right direction, in proper balance and effective?
- (e) What are the priority issues and further actions that should be taken by the Government, business sector, non-government organizations, and individuals in :
  - removing barriers to income equality and social mobility;
  - promoting income equality and social mobility; and
  - maximising the chance of inter-generational social mobility?

Secretariat to Commission on Strategic Development  
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