

The Politics of Welfare Developmentalism in Hong Kong

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Contents

Acronyms	ii
Acknowledgement	ii
Summary/Résumé/Resumen	iii
Summary	iii
Résumé	iv
Resumen	v
Introduction	1
Colonialism and Welfare Development	2
Economic and Financial Policies	3
The Formation of the Social Pact	4
Changes in the Late Transition Period	5
The Asian Financial Crisis and Its Impact on the Residual Welfare State	7
The Asian Fiscal Crisis and the Retrenchment of the Residual Welfare State	7
Economic Restructuring and Its Implications for Social Development	10
Civil Society and Social Policy Development	11
Conclusion	13
Bibliography	14
UNRISD Programme Papers on Social Policy and Development	17
Tables	
Table 1: Public expenditure to GDP ratio, Hong Kong, 1967–2003	1
Table 2: Economic growth in GDP and growth in social services expenditure, Hong Kong, 1967–2003	5

Acronyms

CSSA	Comprehensive Social Security Assistance Scheme
DSS	Direct Subsidy Scheme
GDP	gross domestic product
HKSAR	Hong Kong Special Administrative Region
HOS	Home Ownership Scheme
ITC	Innovation and Technology Commission
LSGS	Lump Sum Grant System
MPF	Mandatory Provident Fund
NGO	non-governmental organization
R&D	research and development
TPS	Tenants Purchase Scheme

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Summary/Résumé/Resumen

Summary

This paper examines the change in social policy in Hong Kong Special Administrative Region (HKSAR) after the 1997 Asian financial crisis, tracing how the historical path of development, economic globalization and the state of political development have combined to structure the response of the state to growing pressures for change in its welfare regime.

Compared with its Asian counterparts, the welfare regime of HKSAR stands out because of the strong role played by the state as the financier and provider of services, as opposed to being simply the regulator. On top of its heavy involvement in financing and provision, it is perhaps also the state that adheres most closely to the idea of small government. This paradoxical combination of a colonial state of limited capacity with a relatively heavy state role in financing and the provision of collective consumption is the result of the confluence of a number of factors that were related to the colonial condition, namely the interest of colonial domination, and the special configuration of economic and financial policies that arose from such interest.

The founding of the “residual welfare state” in the early 1970s marked the inception of welfare developmentalism in Hong Kong. Rapid industrialization, socioeconomic development and a crisis of legitimacy generated the need for more social provision. At the same time, the colonial state was careful to subsume this political need for better social provision under the wider policy parameters of economic non-interventionism and financial conservatism (which entailed a low tax rate, low public expenditure and a public sector of limited size). Sustaining this residual welfare state required high economic growth rates to generate a continuous increase in government revenue with which to fund the expansion of social programmes. A situation of full employment also gave rise to real wage increases that minimized public demands for welfare provision.

These optimal conditions started to change in the 1980s, as socioeconomic development, economic restructuring, the rise of structural poverty, an aging population and rising expectations all led to increasing demands for social programmes. The potential problem of the long-term sustainability of the residual welfare state was partly obscured in the late 1980s to early 1990s by the economic bubble generated by the real estate market. The political transition toward 1997 saw the partial democratization of the legislature. An accumulation of revenue coupled with the political transition led the government to generously increase spending on social provision. The first chief executive of HKSAR, Tung Chee-Hwa, continued increasing social spending, envisioning the construction of a Confucian welfare state as the basis of the new political order. However the Confucian contract’s underlying message of strong political leadership, social unity and a caring government was dealt a deathblow by the Asian financial crisis, which resulted in an economic downturn that destroyed the preconditions that underlay the old social pact. An economic recession of unprecedented magnitude reduced the growth of gross domestic product (GDP) to –5.3 per cent in 1998, increased the unemployment rate to 7.4 per cent in the second quarter of 2002, and raised the public budget deficit to 65 billion Hong Kong dollars (equivalent to 5.2 per cent of GDP) in 2001–2002. Both the middle and lower classes were hit hard by unemployment, wage decline and asset deflation.

Faced with all these challenges, the government prioritized the elimination of the budget deficit; as a result, social programmes suffered from expenditure cutbacks. The retrenchment of the residual welfare state was accomplished through measures of recommodification and cost containment. In response to the structural problems of the economy, the government embarked on the development of a knowledge-based economy and government initiatives in business. The reconfiguration of welfare developmentalism thus entailed a neoliberal turn in social policy and a developmentalist turn in economic policy. The withdrawal of the state from redistributive social programmes has happened at a time when the middle and lower classes have been deeply affected by real financial difficulties, a substantial decline in standards of living, and a lack of social safety nets that could serve as a buffer against such economic fluctuations.

The prospects for more progressive social policy change lie in the construction of alternative discourses. While political parties, labour unions, non-governmental organizations and professional organizations have been quite critical of current development trends, a stronger societal consensus has yet to emerge on what the contours of the new social pact should be. Many of the institutional conditions for the generation of this consensus—and hence, progressive change—hinge on further constitutional reform. In sum, in Asian industrialized states such as HKSAR, social policy reform is inevitably connected with democratization.

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Résumé

L'auteur s'intéresse ici au changement de politique sociale survenu dans la Région administrative spéciale (RAS) de Hong Kong après la crise financière asiatique de 1997. Elle explique comment la voie historique du développement, la mondialisation économique et l'évolution politique se sont combinées pour structurer la réaction de l'Etat aux pressions croissantes qu'il subissait pour changer son régime de protection sociale.

Le régime de protection sociale de la RAS de Hong Kong se distingue de celui de ses homologues asiatiques par le rôle important de bailleur de fonds et de prestataire de services que joue l'Etat, plutôt que d'instance de contrôle uniquement. Outre ce fort engagement au niveau du financement et de la prestation de services, c'est probablement aussi l'Etat qui adhère le plus à l'idée d'un gouvernement restreint. Cette association paradoxale d'un Etat colonial de capacité limitée et d'un investissement assez poussé dans le financement et l'organisation de la consommation collective résulte de la confluence de divers facteurs liés à la situation coloniale, à savoir l'intérêt de la domination coloniale et la configuration spéciale de politiques économiques et financières définies en fonction de cet intérêt.

La fondation de l'"Etat providence résiduel", au début des années 70, a marqué le début du développement social à Hong Kong. Une industrialisation rapide, le développement socio-économique et une crise de légitimité ont rendu nécessaire une protection sociale plus étendue. En même temps, l'Etat colonial veillait à ce que cette nécessité politique d'une meilleure protection sociale entre bien dans le cadre politique du non-interventionnisme économique et de la prudence financière (comprenant une fiscalité et des dépenses publiques faibles et un secteur public de taille réduite). Pour que cet Etat providence résiduel fonctionne, il fallait des taux élevés de croissance économique, qui permettent une augmentation constante des recettes fiscales, débouchant sur le financement de programmes sociaux toujours plus étendus. Une situation de plein emploi entraînait aussi des hausses des salaires réels qui minimisaient les revendications de protection sociale.

Ces conditions optimales ont commencé à changer dans les années 80, lorsque le développement socio-économique, la restructuration économique, la montée de la pauvreté structurelle, le vieillissement de la population et des attentes plus fortes ont amené la population à réclamer de plus en plus des programmes sociaux. Le problème potentiel que pouvait poser la viabilité à long terme de l'Etat providence résiduel a été en partie occulté à la fin des années 80 et au début de la décennie suivante par la bulle économique, elle-même provoquée par le marché de l'immobilier. En vue de la rétrocession de 1997, la transition politique s'est accompagnée d'une démocratisation partielle du parlement. Alliée à l'accumulation d'énormes recettes fiscales, elle a amené le gouvernement à augmenter largement ses dépenses pour la protection sociale. Le premier dirigeant de la RAS de Hong Kong, Tung Chee-Hwa, qui envisageait de construire un Etat providence confucéen comme base du nouvel ordre politique, a poursuivi sur la lancée de ses prédécesseurs et a continué à augmenter les dépenses sociales. Le contrat confucéen tacite—une direction politique forte, l'unité sociale et un gouvernement attentif aux besoins du peuple— a reçu un coup mortel lors de la crise financière asiatique, qui a entraîné une baisse de

l'activité économique et balayé tout ce qui rendait auparavant acceptable l'ancien pacte social. Une récession économique d'une ampleur sans précédent a ramené la croissance du produit intérieur brut (PIB) à -5,3 pour cent en 1998 et a porté le taux de chômage à 7,4 pour cent pendant le deuxième trimestre de 2002 et le déficit du budget public à 65 milliards de dollars de Hong Kong (soit 5,2 pour cent du PIB) en 2001-2002. Les classes moyenne et inférieure ont été durement touchées par le chômage, la baisse des salaires et la déflation de leurs avoirs.

Devant tous ces défis, le gouvernement s'est fixé pour priorité d'éliminer le déficit budgétaire. Les programmes sociaux ont souffert de fortes diminutions des dépenses. L'Etat providence résiduel s'est désengagé en prenant des mesures de remarkandisation et de maîtrise des coûts. Face aux problèmes structurels de l'économie, le gouvernement s'est attaché à développer une économie fondée sur le savoir et a pris des initiatives touchant les entreprises. La reconfiguration du développement social a donc impliqué un tournant néolibéral en politique sociale et un tournant développementaliste en politique économique. L'Etat s'est désengagé des programmes sociaux de redistribution à un moment où les classes moyenne et inférieure étaient durement frappées par une baisse sensible de leur niveau de vie, aux prises avec des difficultés économiques réelles, et privées des filets de sécurité sociale qui auraient pu les protéger de telles fluctuations économiques.

La politique sociale n'a des chances d'évoluer dans un sens plus progressiste que dans la mesure où se dégagent des discours alternatifs. Si les partis politiques, les syndicats, les organisations non gouvernementales et les organisations professionnelles ont été assez critiques de l'évolution suivie récemment, un consensus social plus fort doit encore se dégager sur ce que devraient être les grandes lignes du nouveau contrat social. Ce consensus, et avec lui un changement progressiste, dépend de conditions institutionnelles, dont beaucoup tournent autour de la réforme constitutionnelle future. En résumé, dans les états industrialisés d'Asie tels que la RAS de Hong Kong, la réforme de la politique sociale est inévitablement liée à la démocratisation.

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Resumen

En el presente documento se analiza el cambio de la política social en Hong Kong Región Administrativa Especial de China (Hong Kong RAE) posterior a la crisis financiera asiática de 1997; la autora examina la forma en que el proceso histórico de desarrollo, la mundialización económica y el estado de desarrollo político se han combinado para estructurar la respuesta del Estado a las crecientes presiones en favor de un cambio de su régimen de previsión social.

El sistema de previsión social de Hong Kong RAE destaca entre los sistemas vigentes en otros países de la región asiática en razón del importante papel que desempeña el Estado como financista y proveedor de servicios, en lugar de actuar como mero regulador. Además de su marcada participación en el financiamiento y la prestación de servicios, es probablemente el Estado que más se apega al principio de tener un gobierno pequeño. Esta combinación paradójica de un Estado colonial de capacidad limitada con una función relativamente importante como Estado financista y proveedor del consumo colectivo, es el resultado de la confluencia de una serie de factores relacionados con su condición colonial, a saber, el interés del dominio colonial y la configuración especial de las políticas económicas y financieras que surgieron de tal interés.

La fundación del "estado benefactor residual" a principios de los años 70 marcó el nacimiento del desarrollismo benefactor en Hong Kong. Una rápida industrialización, el desarrollo socioeconómico y una crisis de legitimidad confluyeron para generar la necesidad de una mayor previsión social. Al mismo tiempo, el Estado colonial subsumió esta necesidad política de una mejor previsión social en los parámetros de política más generales del no intervencionismo y el conservadurismo financiero (que entrañaba una tasa fiscal baja, un gasto público reducido y un sector público de tamaño limitado). El mantenimiento de este "estado benefactor residual" re-

quería altas tasas de crecimiento económico que permitieran incrementos continuos de las recaudaciones públicas para financiar la expansión de los programas sociales. Una situación de pleno empleo dio pie también al incremento de los salarios reales que redujeron al mínimo las demandas públicas de previsión social.

Estas condiciones óptimas comenzaron a cambiar en los años 80, a medida que el desarrollo socioeconómico, la reestructuración económica, el surgimiento de la pobreza estructural, el envejecimiento de la población y unas expectativas cada vez mayores se combinaron para acrecentar la demanda de programas sociales. La burbuja económica que generara el mercado de los bienes raíces oscureció parcialmente el potencial problema de la sostenibilidad del estado benefactor residual a largo plazo. La transición política de cara a lo que ocurriría en 1997 produjo la democratización parcial del poder legislativo. La acumulación de ingentes recaudaciones fiscales aunada a la transición política llevó al gobierno a aumentar generosamente el gasto en previsión social. El continuo aumento del gasto social mantuvo su impulso bajo la administración del primer Jefe Ejecutivo de Hong Kong RAE, Tung Chee-Hwa, quien imaginaba la construcción de un estado benefactor confuciano como la base del nuevo orden político. El mensaje subyacente en el contrato confuciano de fuerte liderazgo político, unidad social y gobierno preocupado por sus ciudadanos recibió un golpe letal con la crisis financiera asiática que condujo a la caída de la actividad económica y destruyó las premisas que sostenían el antiguo pacto social. Una recesión económica de una magnitud sin precedentes redujo el crecimiento del producto interno bruto (PIB) a -5.3 por ciento en 1998, aumentó la tasa de desempleo a 7.4 por ciento en el segundo trimestre de 2002 e incrementó el déficit del presupuesto público a 65 mil millones de dólares de Hong Kong (equivalentes al 5.2 por ciento del PIB) en el período 2001-2002. Tanto la clase media como la clase baja salieron severamente afectadas por el desempleo, la reducción de los salarios y la deflación de los activos.

Frente a todos estos desafíos, el gobierno confirió prioridad a la eliminación del déficit presupuestario. Los programas sociales sufrieron recortes presupuestales. La eliminación del estado benefactor residual se completó con la aplicación de medidas de recomodificación y contención de costos. En respuesta a los problemas estructurales de la economía, el gobierno se embarcó en el desarrollo de una economía del conocimiento e iniciativas públicas en el sector comercial. La reconfiguración del desarrollismo benefactor implicó entonces un giro neoliberal en la política social y un cambio desarrollista en la política económica. El retiro del Estado de los programas de redistribución social tiene lugar en el momento en que las clases media y baja se ven profundamente afectadas por dificultades financieras reales, una disminución sustancial de sus niveles de vida y la carencia de redes de previsión social que pudieran mitigar el impacto de estas fluctuaciones económicas.

Las perspectivas de que ocurran cambios más progresistas en la política social radican en la construcción de discursos alternativos. Si bien los partidos políticos, los sindicatos laborales, las organizaciones no gubernamentales y las organizaciones profesionales han hecho severas críticas a las tendencias de desarrollo actuales, hasta la fecha no ha surgido un sólido consenso social sobre cuáles han de ser los elementos del nuevo pacto social. Muchas de las condiciones institucionales para la generación de este consenso—y, por lo tanto, el cambio progresista—dependen de una mayor reforma constitucional. En resumen, en los estados industrializados de Asia como Hong Kong RAE, la reforma de la política social está inevitablemente vinculada a la democratización.

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Introduction¹

As an Asian late industrializer, Hong Kong, in common with its counterparts, has followed a welfare policy featuring low government spending on welfare, an emphasis on self-reliance and the family as informal carers, and an ideological rejection of welfare as a matter of social right, while primacy is given to economic development. The inadequacy of the Asian welfare model was obscured by sustained economic growth, which provided for full employment and wage rises in real terms. In recent years, Asian welfare regimes have confronted a similar set of pressures arising from demographic changes and rising social expectations, with the Asian financial crisis presenting an unprecedented challenge to their adequacy. In this paper, I shall examine the development of Hong Kong's welfare regime after the Asian financial crisis, focusing on the historical path of development, economic globalization and the state of political development, which have combined to structure the response of the state toward the pressure on its welfare regime.

Compared with its Asian counterparts, Hong Kong's welfare regime stands out because of the important role played by the state as the financier and provider of services, rather than simply the regulator. On top of its heavy involvement in financing and provision, it is also probably the state that most strongly promotes the idea of small government. An examination of this trend from the 1970s onwards shows that public expenditure has been low relative to both Western welfare states and even neighbouring Asian developed economies (table 1).

Table 1: Public expenditure to GDP ratio, Hong Kong, 1967–2003

Fiscal year	Public expenditure to GDP ratio (<i>per cent</i>)	Fiscal year	Public expenditure to GDP ratio (<i>per cent</i>)
1967/68	12.0	1985/86	16.0
1968/69	11.7	1986/87	15.3
1969/70	10.9	1987/88	14.0
1970/71	10.9	1988/89	14.2
1971/72	11.2	1989/90	15.6
1972/73	13.7	1990/91	16.3
1973/74	13.1	1991/92	16.2
1974/75	14.3	1992/93	15.8
1975/76	13.4	1993/94	17.3
1976/77	11.7	1994/95	16.4
1977/78	12.6	1995/96	17.6
1978/79	14.2	1996/97	18.2
1979/80	14.0	1997/98	18.4
1980/81	15.6	1998/99	18.5
1981/82	17.2	1999/2000	21.7
1982/83	18.5	2000/01	21.9
1983/84	18.2	2001/02	21.1
1984/85	15.6	2002/03	21.5

Note: Figures adapted from Census and Statistics Department (1997) and Hong Kong Special Administrative Region Government (various years).

Another characteristic of the Hong Kong welfare regime is its heavy reliance on the voluntary sector in the provision of services, especially in the areas of education and social services. Non-

¹ A note on terminology: For the remainder of this paper, Hong Kong Special Administrative Region (HKSAR) is used to refer to the post-1997 government officially; otherwise, Hong Kong is used to refer to the place both before and after 1997.

profit organizations, especially church organizations, played an important role in the provision of education through the grant-in-aid system instituted from the late nineteenth century, and their role was greatly expanded in the 1970s. At present, about 80 per cent of all schools and 90 per cent of social services are provided by non-profit organizations under state funding (Lee 2005a). This paradoxical combination of a colonial state of limited capacity and a relatively heavy state role in financing and the provision of collective consumption is the result of the coming together of a number of factors related to the colonial condition—colonial domination and the particular configuration of economic and financial policies that were a result. These colonial conditions largely shaped the historical path of development of the welfare regime, if not the response of the postcolonial state to the challenge of the Asian financial crisis.

Colonialism and Welfare Development

Hong Kong was a British colony from 1842 to 1997, the period before it reunified with China to become a special administrative region (the Hong Kong Special Administrative Region, or HKSAR) under its sovereignty. For most of its colonial rule, roughly from the 1840s to the 1950s, the state's welfare provision was minimal and even non-existent in certain areas. Where social provision was made, it was aimed at satisfying the interest of colonial domination. The University of Hong Kong, for instance, was founded in 1911 to graduate professionals to serve the needs of the colonial government. Free vaccination was provided to prevent the spread of epidemics (which might eventually harm the expatriate population). For the colonial administration, the high population mobility of an essentially migrant society also added to the reluctance to develop any form of welfare system lest it attract an influx of poor people from the Guangdong region (Jones 1990).

Tang (1998) argued that there was a policy shift in the 1950s. The government began to provide low-cost public housing with primitive facilities; public spending on primary education was increased in the early 1960s together with the founding of a second university; expenditure on health care was also on the rise; a couple of White Papers were issued concerning long-term social and medical services. Tang attributes this policy shift to the change in geopolitical environment after the Second World War, in which Hong Kong was regarded in Britain's defence policy as a major "fortress colony" against communism (Tang 1998:51–58). The current residual welfare state was founded in the early 1970s after the occurrence of two major social riots, when the colonial state realized that its legitimacy was tied to its ability to respond to a rising social need for welfare provision. This "big bang" phase in social policy, as Tang (1998) characterizes it, witnessed a major increase in social provision. This included the introduction of benefits in cash for the first time as a form of social assistance to the poor, elderly and disabled; the financing of voluntary agencies to provide a range of social services for youth, family counselling, rehabilitation, the elderly and community development; the provision of free and compulsory education to students up to the age of 15; the announcement of a Ten-Year Housing Programme that evolved into one of the largest public housing projects in the world; and the expansion of public health care to provide 80 per cent of outpatient services for the population. Paraphrasing Leman (1977), Tang (1998) cited two general patterns of welfare development—continuous versus episodic development of welfare. Hong Kong's pattern of development in the 1970s clearly fell into the latter pattern.

This episodic development of welfare brought about a qualitative and quantitative improvement in social provision but did not fundamentally change the official attitude to welfare as merely a final safety net that people could fall back on. It can be argued that this episodic pattern of development at least partly explains why the government had to rely on voluntary agencies as major service providers and why the state has been the major source of funding. The absence of essential institutional capacity prompted the state to turn to voluntary agencies, while the lack of established societal sources of funding also made the state a major source of welfare funding.

Economic and Financial Policies

Hong Kong's economic policy was crystallized in its celebrated doctrine of economic non-interventionism, whereby the government made no proactive economic policy but relied on the market as the primary engine of economic activities. While the government officially took this doctrine as the hallmark of the city's "economic miracle", scholarly studies have challenged its authenticity. Castells (1992), for example, points out that the colonial state was not actually as non-interventionist as it appeared but played an active role in providing infrastructural support to industries and business, and assumed substantial responsibility in the provision of collective consumption, and hence a viable social environment, for economic development. Others contend that Hong Kong succeeded economically not because of, but in spite of, the *laissez-faire* policy of the colonial government. Scholars in this camp explicitly or implicitly compare Hong Kong unfavourably with the proactive policies of other Asian developmental states in nurturing industrial development. Chiu (1994) attributes this policy difference to the dominance of the British commercial elites in the governing machinery. They favoured a low tax rate and minimal state interference in the economy, and under their influence the government repeatedly refused to comply with the demand of local industrialists for more government support for industrial development. These studies show that the colonial state was not as non-interventionist as often claimed but rather had not developed the capacity to actively and strategically guide economic development. In other words, the colonial state was not a strong developmental state.

Ideologically, the doctrine at least served as the guiding philosophy of the state, if not actually shaping its institutional practice. Various colonial governors and financial secretaries explicitly endorsed *laissez-faire* capitalism and regarded it as the cornerstone of the colony's economic success. Sir John Cowperthwaite, the financial secretary from 1960 to 1971, is representative of those strongly opposed to any form of developmental policy (Hong Kong Government 1962:133; 1968:212). The well-known term "positive non-interventionism" was invented in the 1970s by the then financial secretary, Sir Philips Hadden-Cove, to describe the government's deference to the market for the generation of economic activities and the provision of goods (Hong Kong Government 1977:827-830). The major consequence of this doctrine was the absence of both macroeconomic planning and an industrial policy in Hong Kong's economic development. The major engine of industrial development in the 1960s and 1970s was small and medium-sized firms that adopted the strategy of flexible production and minimization of costs through the use of unskilled labour.

Complementary to this doctrine of non-interventionism is the conservative financial policy of a low tax rate, a simple tax system and low public expenditure, practices traceable to the early days of colonial rule. Chiu's (1994) study shows that there were both political and administrative origins for such a policy. The early commitment of the colonial government to economic non-interventionism and financial conservatism was the result of its close alliance with the British commercial capitalists, who favoured a low tax rate and minimal government interference in commercial operations. The Financial Procedures in the Colonial Regulations required that colonies avoid any deficit that would impose a financial burden on Britain. Under these guidelines, the colonial government tried to avoid a deficit budget and maintain a satisfactory level of fiscal reserves. As Tang (1994) states, successive financial secretaries emphasized that the annual budget should ensure that Hong Kong was not in danger of "living beyond [its] means": such fiscal policy is thus procyclical rather than anticyclical. The government also prided itself on having a simple tax system with a low income redistribution effect. Tang shows that the overall redistributive effect of the whole tax system amounts to reducing the Gini coefficient by 5 per cent. In the early 1980s, this governance ideology crystallized into explicit government guidelines that public expenditure should be kept below 20 per cent of gross domestic product (GDP), that the rate of growth of public expenditure should not exceed the rate of economic growth and that a balanced revenue budget should be maintained as far as possible.

Welfare developmentalism in a colonial state was thus configured through a residual welfare state that was structured by financial conservatism and economic non-interventionism. Financial conservatism led to the residual nature of the colonial welfare state, in which the level

of social spending was tied to economic growth and the financial situation of the government. Under a taxation system with minimal income redistribution, a social wage provided through collective consumption became the major form of income transfer (Tang 1994). The state in Hong Kong also lacked the strength to discipline business and industrial elites, who would not have favoured the burden of any social insurance programmes. State financing thus became the major mode of funding social programmes.

Colonial interest, financial conservatism and economic non-interventionism thus largely explain the characteristics of the welfare regime in Hong Kong. The episodic pattern of welfare development led to a high level of state reliance on the voluntary sector as service provider through corporatist arrangements. The policy of economic non-interventionism implied that the colonial state was historically not as autonomous as other Asian developmental states, and instead of mandating industries to provide insurance to their workers, it had to assume the role of provider and financier of welfare. The residual nature of the welfare state was the direct result of financial conservatism; the social wage provided by the state assumed a particularly important role in providing for industrial peace and supporting a flexible production regime.

The Formation of the Social Pact

As economic non-interventionism and the residual welfare state became institutionalized practices, they constituted the two essential components of the social pact in the late colonial period. The cultural endorsement of economic non-interventionism was fortified under a period of prolonged economic growth from the 1960s to 1980s that had provided some of the “trickle down” effect for a general improvement in the standard of living.² The “economic miracle” produced the legend that everyone had the chance to succeed, or at least improve his or her livelihood, through talent and hard work. This is evident in numerous studies conducted in the 1970s and 1980s in which people consistently believed that Hong Kong was a land of opportunity, and that with ability and effort everyone had the chance to improve his/her social and economic status (Tsang 1994b). Some studies show that this subjective perception of the existence of channels for upward mobility is not substantiated by objective data. Tsang, for instance, shows that there were definite “closures of mobility opportunities within the social structure of Hong Kong” (1994a:62). Nonetheless, the subjective perception of social openness was deeply ingrained in the collective experience of a generation of Hong Kong people. As Lau and Kuan state:

In short, the capitalist system of Hong Kong is founded upon solid normative orientations. ... The expectation of equality of opportunities and the perception of Hong Kong as a land of abundant opportunities seem to have been vindicated in the mind of the Hong Kong Chinese (1991:58).

On the other hand, studies in the mid-1980s also found that Hong Kong people were supportive of the social interventionist role played by the government. The survey findings of Lau and Kuan (1991) show that the Confucian ideal of social egalitarianism was a significant ethos of the Hong Kong Chinese in the sense that most people did not want to see a huge gap between the rich and the poor.³ The image of the government as the major provider of public services was firmly established among the population by the 1980s, after more than a decade of expansion in public services and social programmes.⁴

² According to Chau's (1994) analysis, based on the real wage index and income share, 1960–1973 was a period of rising income and falling inequality, largely attributable to the booming manufacturing industry. In the 1970s, with the development of the tertiary sector and the relative decline of the manufacturing sector, the trend toward equity levelled off and reversed itself. The economic restructuring in the 1980s led to massive relocation of the labour force from manufacturing to the service sector, giving rise to higher income disparity.

³ In the survey, 55.3 per cent of respondents agreed or strongly agreed that a “good society” was one where there was not much difference in incomes; 63.6 per cent thought that the gap between the rich and the poor in Hong Kong should not be that large (Lau and Kuan 1991:58).

⁴ In the same survey, 89.2 per cent of respondents believed that the government had the primary responsibility for solving social problems (Lau and Kuan 1991:89).

In sum, the social pact that was formed in the 1970s comprised the dual values of economic individualism and social interventionism in welfare provision, constituting the bases for the perception of “equal opportunities” among the population. A former financial secretary, Hamish Macleod, used the term “consensus capitalism” to describe the collective consensus on the need to maintain economic freedom and an adequate safety net (Hong Kong Government 1995). This peculiar combination of the market and the welfare ethos was a direct result of the colonial government’s approach to economic non-interventionism and the residual welfare state.

Changes in the Late Transition Period

The condition for the sustenance of a residual welfare regime was a period of high economic growth leading to a continuous increase in government revenue to fund the expanding demand for social provisions, combined with a situation of full employment and real wage increases that minimized the public demand for welfare provision. These optimal conditions started to change in the 1980s, as socioeconomic development, economic restructuring, the rise of structural poverty, an ageing population and rising expectations all gave rise to increasing pressure on social programmes. In the 1990s, a declining economic growth rate was met with a continuing increase in public and social expenditure (table 2).

Table 2: Economic growth in GDP and growth in social services expenditure, Hong Kong, 1967–2003

Year	Growth in GDP (per cent) ^a	Social services expenditure/total public expenditure (per cent) ^b	Year	Growth in GDP (per cent)	Social services expenditure/total public expenditure (per cent)
1967/68	1.7	39.2	1985/86	0.4	44.5
1968/69	3.3	39.9	1986/87	10.8	43.9
1969/70	11.3	40.3	1987/88	13.0	44.8
1970/71	9.2	40.3	1988/89	8.0	47.2
1971/72	7.1	40.0	1989/90	2.6	45.0
1972/73	10.3	32.6	1990/91	3.4	45.8
1973/74	12.4	36.4	1991/92	5.1	45.7
1974/75	2.3	39.5	1992/93	6.3	45.4
1975/76	0.3	43.4	1993/94	6.1	44.9
1976/77	16.2	41.3	1994/95	5.4	47.5
1977/78	11.7	41.5	1995/96	3.6	47.6
1978/79	8.5	42.5	1996/97	4.5	49.9
1979/80	11.5	43.3	1997/98 ^c	5.0	53.1
1980/81	10.1	43.7	1998/99	-5.1	51.6
1981/82	9.2	39.0	1999/2000	2.9	54.5
1982/83	2.7	40.3	2000/01	10.2	56.5
1983/84	5.7	42.1	2001/02	0.5	54.6
1984/85	10.0	44.6	2002/03	2.3	55.1

^a GDP is calculated on a calendar year basis. The figures are adopted from Census and Statistics Department (1997) and www.info.gov.hk/censtatd/eng/hkstat/fas/nat_account/gdp/gdp1_index.html. ^b Social services expenditure here refers to expenditure on health, education, housing and social welfare. Both social services expenditure and public expenditure are based on the consolidated accounts, and the figures are obtained from Hong Kong Government (various years) and Hong Kong Special Administrative Region Government (various years). ^c Figures for 1997/98–2002/03 are for HKSAR.

This potential problem of the long-term sustainability of the residual welfare state was partly concealed in the late 1980s to the early 1990s by the “economic bubble” generated by the real estate market. As the largest landowner of the territory, the colonial government relied on the sale of land as a major source of revenue.⁵ During the transitional period, the Sino-British Joint Declaration mandated a restriction on land sales of 50 hectares per year.⁶ The lack of land was met with an increase in the demand for residential and commercial properties, a result of the economic boom in the 1980s brought about by China’s “open door” policy. Land prices soared, leading to a huge increase in government revenue and an overheated real estate market that invited speculative activities. The accumulation of huge revenues coupled with the political transition caused the government to generously increase spending on social provision. In the late transition period, the legislature was partially democratized. Under the very last governor, Chris Patten, a change in the electoral system resulted in a legislature with a substantial percentage of members from the democratic camp. It was in this setting that the Mandatory Provident Fund (MPF) was set up, providing for the first time a social insurance scheme for the retired population (Chow 1998). Chris Patten was also apparently content with increasing expenditure on areas such as social welfare. Owing to the serious problem of “brain drain” and the restructuring of the economy concentrating on the service industry, the government was compelled to drastically expand higher education by increasing the number of public universities from two to eight between 1991 and 1996. In short, democratization, political transition and the “economic bubble” led to a period of substantial expansion in social expenditure.

The impetus to continuously increase social spending was furthered by Tung Chee-Hwa, the first Chief Executive of the HKSAR. As a new political leader symbolizing the end of years of colonial domination and the beginning of a new era in which the Hong Kong people finally attained self-rule, Tung felt the need to demonstrate strong leadership and give people the vision of a better future. His idea of social provision, which I term the “Confucian welfare state”, was intertwined with an effort to reconstruct the basis of a new political community. Tung Chee-Hwa’s attempt to build a Confucian welfare state was first announced in his “campaign platform” as he ran for the post of the first chief executive, selected by a committee of 400 electors.⁷ At the time Tung’s idea was conceived, he was still expressly optimistic about Hong Kong’s economic prospects. An open admirer of Lee Kuan-Yew, Tung (1996) attempted to frame a new national identity by appealing to Hong Kong people to rediscover Confucian ethics as guiding social values, which he defined as laying an emphasis on the values of consensus, modesty, harmony, obligation, familialism and collectivism rather than confrontation, rights and individualism. Tung’s efforts can be seen as an attempt to reconstruct the cultural basis of the social pact in Hong Kong. Under this pact, citizenship was defined in terms of a cultural call to duty rather than the pursuit of individual interests. In exchange, it was the obligation of a benevolent ruler to promote economic development and to provide adequate care for the population. This paternalistic approach toward governance prompted Tung to make generous promises on social programmes, including the improvement of welfare for the elderly and the provision of adequate housing in order to build a “compassionate and caring society”. Tung also foresaw the need for a more interventionist approach to economic policy and more investment in education in order to switch the economic base to higher value-added goods and sustain Hong Kong’s long-term economic viability.

Tung’s appropriation of the Confucian ideology to foster a sense of “Chineseness” and his promise for more policy output can be seen as strategies to enhance the legitimacy of the new HKSAR government as well as to repair the social cleavages caused by the political turmoil between China and Britain that had bitterly divided society in the last few years of transition. The paternalistic overtones of the Confucian discourse never aroused much enthusiasm among the population, given that civil liberties, pluralistic interests and civil society had already

⁵ In 1996–1997, the sale of land constituted 13 per cent of the government’s revenue.

⁶ The purpose of the clause was to prevent the British administration from selling an excessive amount of land, thus leaving too little for the post-1997 government.

⁷ For details of the method of selection, see Hong Kong Government (1995:Annex I).

developed in the latter years of colonial rule. The generous promise of more substantial programmes, however, did raise public expectations for better services.

The Asian Financial Crisis and Its Impact on the Residual Welfare State

The Confucian contract's underlying message of strong political leadership, social unity and a caring government was officially dealt a deathblow by the Asian financial crisis, which led to economic downturn and as a result destroyed the preconditions upon which the old social pact had been built. After decades of high economic growth and full employment, an economic recession of unprecedented scale brought GDP growth down to -5.3 per cent in 1998, while the unemployment rate rose to a record high of 7.4 per cent in the second quarter of 2002. A revenue budget had been almost the norm since the 1970s, but the financial year of 2001-2002 recorded an unprecedented deficit of 65 billion Hong Kong dollars (equivalent to 5.2 per cent of GDP). The price of real estate fell 60 per cent from 1997 levels, and the stock market fell by almost 40 per cent in the same period, causing drastic asset price deflation. The perennial record of enjoying revenue budgets and keeping public expenditure below 20 per cent of the GDP was broken. Both the middle and lower classes were hard hit by unemployment, wage decline and asset deflation. Many social commentators have pointed out that the recession was not cyclical but structural, and was the result of past negligence in economic policy. The crisis led to the bursting of the "economic bubble" that had been built upon an overheated real estate market and short-term speculation. It exposed structural problems in the economy, including over reliance on the service industry, high business costs, low productivity and poor-quality human resources. This internal crisis of the structure of the economy was coupled with an external threat, as China's accession to the World Trade Organization was expected to bring keener regional and global competitive pressures on Hong Kong. The economic recession and the record high unemployment rate also exposed the underdevelopment of the social safety net, as there was no insurance programme for unemployment pensions to alleviate the social impact.

The Asian Fiscal Crisis and the Retrenchment of the Residual Welfare State

In the first few years after the outbreak of the Asian financial crisis, the dominant approach was to adopt mildly counter-cyclical measures. The budget deficit was deemed to be cyclical rather than structural, and would be eliminated as the economy rebounded. Apart from tax concessions, social expenditure increased in real terms, especially in social welfare and education, due to the rigidity of prices, the rise in demand and the need for economic restructuring. The government was confronted with tremendous political resistance from civil servants when it attempted to reduce their salaries. The rise in the unemployment rate imposed a heavy burden on the social assistance system, as it was the only source of income support that the unemployed and low-income families could fall back on. Restructuring Hong Kong's economy to a knowledge-based one also implied the need to substantially upgrade the quality of human resources by investing more in education.

Five years on from the Asian financial crisis, the economy had still not revived and the budget deficit had snowballed, as we have seen, to a record high of 65 billion Hong Kong dollars (5.2 per cent of GDP). In 2002, the new financial secretary, Antony Leung, announced in his first budget speech that the deficit should be eliminated as soon as possible. He considered that the public sector had over expanded, and that public expenditure should be reduced from 22 per cent to 20 per cent of GDP by 2006-2007.⁸ This determination to eliminate the deficit, together with other measures carried out since 1997, constituted what I regard as the retrenchment of the

⁸ His successor, Henry Tang, decided to postpone the target date for the 10 per cent reduction to 2008.

residual welfare state.⁹ Many of the measures taken are quite similar to those that facilitated the restructuring of Western welfare states. Pierson (2001) identifies three dimensions of welfare state restructuring—recommodification, cost containment and recalibration. I argue that recommodification and cost containment measures have been used by the HKSAR government to reduce spending on social provision.

In health care, the budget deficit of the Hospital Authority (the public body that heads and funds all public hospitals and clinics) skyrocketed to 500 million Hong Kong dollars in 2002–2003 due to spiralling staff costs and rising public demand for services (*Ming Pao Daily*, 16 September 2002). To contain the cost of health care, the government has refused to inject additional funds into the Hospital Authority, which was instead compelled to balance its own budget through measures such as staff salary cuts and a hiring freeze, leading to longer waiting times and the worsening of service quality. Recommodification of health care is evident in changes in charging policy; new measures were implemented that entailed the withdrawal of the subsidy for expensive medication, forcing patients to assume the entire cost themselves, while charges were imposed on emergency services.

Confronted with the oversubscription of the service and the ever-increasing cost of provision, the government in 1999 commissioned a team of experts from Harvard University to study the health care system. Their report noted that the “long-term financial sustainability of the present health care system is highly questionable”, and recommended the setting up of a mandatory contributory health security scheme with a redistributory effect (Harvard Team 1999:5). In 2001, the Health and Welfare Bureau published its own consultative document, which partially rejected the recommendations of the Harvard Team’s report, and instead recommended a mandatory contributory scheme with no redistributive or cost-sharing effect (Health and Welfare Bureau 2001). Such a proposal reflects the government’s long-term intention to recombine health care by withdrawing its financing and letting the public shoulder most of the cost. Such intent was confirmed in the most recently released discussion paper, in which the government suggested drastically limiting the scope of public health care service, driving middle class patients to the private health care system (Health and Medical Development Advisory Committee 2005).

In education, in the period after the Asian financial crisis, the government recognized that upgrading human resources was important to facilitate the transition of Hong Kong to a knowledge-based economy. The latest large-scale review of the Education Commission proposed comprehensive reform of the existing elitist and examination-oriented education system to train people for life-long learning, creativity and analytical ability (Education Commission 2000). This implies the need to increase the percentage of the population at a tertiary education standard and to improve the quality of primary and secondary education. To cope with the need for more expenditure on education under existing financial constraints, various measures of recommodification have been adopted. These include encouraging more private schools to be set up and more subvented schools to switch to a Direct Subsidy Scheme (DSS) that would allow for more management autonomy in fee charging and staff salary (Hong Kong Special Administrative Region Government 1999). Both private and DSS schools meant drastic increases in school fees and charges on parents, and the enlargement of the resource gap among schools if not class inequality in education. Also, in conflict with its intent to upgrade the quality of human resources, the government is withdrawing all its subsidies on associate degrees and taught masters degree programmes. As to cost containment, the policy objective of quality education is again compromised by the government’s refusal to take advantage of the decline in the birth rate to switch to smaller class sizes in primary and secondary schools. Universities are also expected to suffer deep budget cuts of up to 25 per cent in 2003–2007.

In the area of social security, no unemployment pension system has been developed. A retirement scheme was developed in the early 1990s when the partially democratized legislature compelled the government to bring the issue onto the agenda. Under pressure from the busi-

⁹ See Lee (2005b) for more analysis of the retrenchment of the residual welfare state in Hong Kong.

ness camp and the Beijing government, a non-redistributory MPF scheme, which required every employee and his/her employer to contribute 5 per cent of the employee's monthly salary to his/her individual account, was adopted in preference to an alternative proposal of a more redistributory character. The latter proposal was supported by pro-welfare legislators; it would have mandated employees and employers to each contribute 3 per cent of the wage, with all permanent residents aged 65 and over receiving a flat monthly rate (2,300 Hong Kong dollars in 1994). As the recently adopted retirement scheme will take many years to mature, a large number of the elderly population currently has to rely on the means-tested social assistance scheme (Comprehensive Social Security Assistance Scheme, CSSA), as do single parents and the unemployed who under the current system have no alternative social safety net to fall back on. Faced with an increase in the number of claimants, measures were taken to cut expenditure. A report titled *Support for Self-Reliance* was released, proposing a cut in the monthly allowance, especially to able-bodied recipients and large households, a more stringent asset limit and a programme "encouraging" them to return to the job market (Social Welfare Department 1998). Even though social activists and scholars criticized the CSSA allowance as being below that needed for a decent standard of living, an 11.1 per cent reduction in the amount of the allowance was imposed, together with a stringent seven-year residency requirement on applicants for the CSSA, disability and old-age allowance.

Cost containment measures were also extended to social services. In October 1999 the government put forward the Lump Sum Grant System (LSGS) as a mode of funding non-governmental organizations (NGOs). The LSGS provides for a flexible funding model based on a one-line vote, in which agencies have the flexibility to decide on staffing structure, salary levels and other items of expenditure. Agencies can carry over unused funds to the next financial year (Social Welfare Department 2000). On the other hand, a quasi-market for social service provision has been developed as the government opens up service contracts for competitive bidding among social service agencies and also between the private and non-profit sectors. Critics of the new funding model are particularly concerned that the one-line vote will become the mechanism for the government to impose a ceiling on social service expenditure, and to turn NGOs into agents for cutback management, as they are compelled to cut down on staff and other costs in order to balance the stringent budget. The opening up of service contracts to competitive bidding will further force NGOs to pursue value-for-money, rather than service quality, as the primary objective when delivering social services.

Public housing policy took a drastic turn toward recommodification during Tung Chee-Hwa's term of office. In his 1997 policy address, Tung first set a target of building 85,000 units each year, with 70 per cent of the population having their own purchased homes in 10 years (Hong Kong Special Administrative Region Government 1997). The subsequent economic downturn and the real estate market slump (market prices dropped by 60 per cent after 1997) brought about a dramatic change in government policy. The latest government trend is partial withdrawal from public housing provision. In November 2002, the government announced that it would permanently stop building and selling Home Ownership Scheme (HOS) flats and would also terminate the Tenants Purchase Scheme (TPS). The HOS, instituted in 1976 and consisting of large-scale housing projects built by the government, had enabled lower-middle-class families to purchase apartments at 25 to 40 per cent below market value, while the TPS (introduced in the 1990s) allowed public housing tenants to buy the flat they rented at a low price (Housing Planning and Lands Bureau 2002). With the termination of these schemes, citizens will be able to purchase apartments only from the market. Critics regard this policy turn as a government concession to the pressure of real estate developers who see subsidized public housing as a threat to the private housing market, especially after the market slump. It can also be seen as a step forward in the government's move to withdraw partially from housing provision.

This policy of retrenchment is a far cry from the Confucian welfare state proposed by Tung. It shows how financial conservatism can override other political ideas in prescribing the parameters of the welfare programmes in the case of the residual welfare state.

Economic Restructuring and Its Implications for Social Development

Accompanying the retrenchment of the residual welfare state has been the increasing role played by the government in economic development. In response to the structural problem of the economy, the major policy innovations of Tung's administration included the development of a knowledge-based economy, long-term economic strategies and government initiatives in business. On the recommendation of the Chief Executive's Commission on Innovation and Technology (1999), an Innovation and Technology Commission (ITC) was set up. Apart from promoting applied research and development (R&D), it also identifies strategic technology areas such as biotechnology, Chinese medicine and information technology. Investment in R&D is made through the Innovation and Technology Fund that was set up in 1999 with an allocation of 5 billion Hong Kong dollars to fund universities and industries conducting research. The ITC also intends to actively identify other key technology areas for priority development in the future. Cyberport and the Hong Kong Science and Technology Parks Corporation are the two major infrastructural projects developing high-tech industry and fostering technological entrepreneurship. In an unprecedented move to boost Hong Kong's tourist industry, the government entered into a joint venture with The Walt Disney Company to build Hong Kong Disneyland, which involves a commitment of over 22.45 billion Hong Kong dollars in infrastructure, land and loans, in the hope that it will bring in 35,800 new jobs in the next 20 years and eventually a financial gain of as much as 16.8 billion Hong Kong dollars per year by 2024. Other initiatives to create business opportunities include fostering business participation in the development of China's western region and further economic integration between Hong Kong and the Guangdong region. As to the development of long-term economic strategies, the Commission on Strategic Development (2000) envisioned Hong Kong as "Asia's World City" through constructing world-class service infrastructure for international financial, business and cultural activities. In the transition to a knowledge-based economy, which some scholars characterized as amounting to "the third economic restructuring" (Liu 1998), a large number of low-skilled workers are being gradually left out of the labour market; they inevitably become part of the "welfare class". Some attempts have been made to get them back into the labour market, such as through the provision of retraining programmes and initiatives to revive a community economy. So far, the effectiveness of these measures to redress the surplus in low-skilled workers has been rather limited.¹⁰

The significance of these policy reforms lies in the way they have, at least in principle, deviated from the old doctrine of positive non-interventionism. Financial Secretary Antony Leung (Hong Kong Special Administrative Region Government 2002) used the term "proactive market enabler" to describe the new role of the government in economic development, meaning that it should pursue an active strategy to develop the economy instead of letting the "invisible hand" decide the path of development. It is still too early to tell whether these policy changes will enhance economic competitiveness, since their success depends on financial input, human capital, institutional set-up and policy implementation. Nonetheless, the tone is definitely set for a government-led economic restructuring project, and the abandonment of the non-interventionist policy means that state legitimacy is now to be judged by its ability to manage the market.

In sum, in the period since the Asian financial crisis, the reconfiguration of welfare developmentalism has manifested itself as a developmentalist turn in economic policy and a neoliberal turn in social policy. This reform trend in Hong Kong goes against that of some Asian developmental states such as the Republic of Korea and Taiwan Province of China, where scholars have observed a definite trend of liberalization in economic policy (Minns 2001; Tsai 2001). At the same time, democratization in Korea and Taiwan has brought about changes in their traditional Asian welfare model (Goodman et al. 1998), as electoral politics bring the ideas of social and economic rights onto the public agenda. In Korea, the democratization process that started in the mid-1980s compelled the government to adopt welfare reforms, notably in the extension of the National Health Insurance scheme to include all citizens in 1988, and the introduction of the Employment Insurance Programme in 1995. After the Asian financial crisis, the government

¹⁰ In 2002, 21 per cent of the unemployed were educated at primary level or below (Census and Statistics Department 2002:25).

under President Kim Dae-jung adopted the Minimum Living Standard Guarantee that ensured a living standard equal to the relative poverty line (Kwon 2002). In Taiwan, in the 1990s, the opposition party, the Democratic Progressive Party, announced a platform based on, among other things, democratization and social welfare, which eventually compelled the government party to reform its social security system and brought about the establishment of a universal National Health Insurance programme in 1995.

The postcolonial authoritarian state, consisting of a strong unelected executive and a weak partially elected legislature, has been largely free from the pressure of electoral politics to increase its welfare commitment. Rather, the state has been able to resort to social authoritarianism and impose its own discourse on economic and social development: Hong Kong had no choice but to adapt to the logic of the globalized economy, revive the past good practice of prudent financial management and the former ethos of diligence and self-reliance.

Civil Society and Social Policy Development

The transition to a knowledge-based economy will have the effect of polarizing the “haves” and the “have-nots”, while the withdrawal of the state from redistributive social programmes means that it will do less to redress such polarization. This state withdrawal in welfare has happened at a time when the general public, especially the middle and lower classes, are faced with the problems of asset deflation, unemployment and a decline in real wages. While hard hit by real financial difficulties, a substantial decline in living standards, and the lack of a social safety net that could shield them from such economic fluctuations, they are expected to be more “self-reliant” and to depend less on social programmes.

Indeed, the shortcomings and social injustice of the present system have been criticized by various social groups. Opposition voices come from political parties, welfare and advocacy-based NGOs, labour unions and professional associations. Political parties have only a short history in Hong Kong; it was not until the early 1990s that they began to proliferate with the inception of direct elections in the Legislative Council. Most political parties are of limited capacity, with a small number of members and limited budgets, and thus few resources devoted to policy research. In addition, the current political system is not conducive to the development of party politics: the Basic Law, the mini-constitution of HKSAR, provides for an unelected chief executive and a partially elected legislature. Political parties therefore perform the role of opposition parties in a weak legislature whose power to legislate is seriously curbed by the constitution. Before 1997, the divisive issue between political parties was their attitude toward China. After 1997, with the economic downturn brought about by the Asian financial crisis, economic and livelihood issues began to emerge as major election concerns. Issues such as unemployment, labour rights, poverty and social policies (in short, matters of social and economic rights) emerged as some of the major sources of cleavage among voters. On the other hand, a political party of substantial mass support able to advance a coherent social democratic platform linking the relationship between social policy, economic and financial policy and the fundamental political values that are implicated in such a relationship has yet to emerge. Ma’s (2002) study shows that the largest political party in the pro-democracy camp, the Democratic Party, is moving gradually to a more middle-class position. A few candidates from pro-democracy pro-grassroots groups (a couple of whom are labour activists) have received strong electoral support. By and large, elected legislators with a strong social democratic stance constitute only a minority group within the pro-democracy camp.

For decades after the Second World War, labour union activism was at a low level in Hong Kong. Private labour unions have always been marginalized, if not powerless, under the current labour regime in which there is no legal right to collective bargaining or to strike. The industrial structure, first dominated by light manufacturing industry that utilized the flexible labour strategy in the 1970s and then the service industry in the 1980s, was not conducive to the formation of strong class consciousness and solidarity. Neither were there corporatist arrangements of any kind

whereby labour could exert influence on policies affecting welfare and livelihood. In the mid-1990s, only about 10 per cent of employees in the private sector were unionized (Chiu and Levin 2000:97). Historically, many labour unions were affiliated with two major federations, the Hong Kong Federation of Trade Unions and the Hong Kong and Kowloon Trades Union Council, whose goals were to mobilize their members in support of the People's Republic of China and Taiwan Province of China respectively. Chiu and Levin's (2000) analysis shows that new independent unions and federations proliferated in the 1980s. The Hong Kong Confederation of Trade Unions, for instance, emerged as the largest independent federation (with around 78,500 members) with a social-democratic orientation. An increasing level of labour union activism could be detected in actions such as the forging of strategic alliances with political parties; in coalition formation among unions of different ideological stances in the push for labour rights; and in temporary alliances with community groups in protest movements. In elections, the unions have been a major source of support for pro-grassroots candidates with a social-democratic stance. Chiu and Levin (2000) argue that all these "signal the emergence of [the] 'social movement unionism' found in some developing countries" (Chiu and Levin 2000:120). On the other hand, Chiu and Levin also perceive that, unlike other places such as Brazil and South Africa where unions have allied with community-based protest groups in campaigns against the state and employers, local unions "have been at best marginally involved in community mobilization" (Chiu and Levin 2000:120).

Since the 1970s there has been a proliferation of welfare and advocacy-based NGOs backing the cause of minority groups. These NGOs consist of voluntary agencies, progressive church-related organizations and new social movement groups focusing on issues of gender, sexual orientation, the environment, race, ethnicity, human rights, etc. While these NGOs do not have a unified stance, they are broadly concerned about social justice. Particularly in recent years, women's organizations have brought issues of social development onto the public agenda by drafting their coalition platforms on gender mainstreaming of public policies. These platforms embody the idea of democratic citizenship as the essential basis of a just polity and involve a direct confrontation with the unjust nature of existing economic and political institutions (Lee 2003). However, by and large, these NGOs have only formed issue-based strategic coalitions. A more large-scale civil rights movement that focuses on social development has yet to emerge.

Professional associations are a heterogeneous mix of both progressive and conservative elements. So (1999) argues that the middle class in Hong Kong can be seen as consisting of at least two groups based on occupation—the service professionals and corporate professionals. Corporate professionals (such as accountants and corporate managers) have a close relationship with big business and tend to support the government's policy of economic non-interventionism and financial conservatism. Service professionals include social workers, teachers and journalists whose work involves interacting with the grassroots population and embodying values of social justice. Since the 1970s, many public service professionals—lawyers, social workers, teachers and journalists—have been the central pillar of the democratic movement and the advocates of welfare capitalism. In recent years, the retrenchment of the residual welfare state has had a tremendous impact on many public service professionals, notably in education, health care and the social services, as they are confronted with salary cuts, worsening work conditions and compromises on their professional values, while being victimized by the government's policy failures, which further arouses the criticism of such professionals toward present government policies. Some groups, such as the medical profession, were traditionally pro-establishment forces. The financial and institutional problems of the public health care system have prompted the younger generation of the group to take collective action to defend the interests of the profession, and in the process they raise the question of the implications of health policy for distributive justice and the welfare of their clients. These professional groups are politicized and have engaged in collective action in protest against government policies.

While there are numerous associations that are concerned in one way or another about social policies in Hong Kong, and there have been ad hoc alliances on individual policy issues, strong strategic coalitions with a more unified agenda have yet to emerge. Ideally, such a unified agenda may be generated through competitive elections in which political parties competing for

offices will play the role of aggregating the interests of various sectors. The experiences of democratization in Taiwan Province of China and the Republic of Korea have shown that “competitive elections...have forced the political parties to accept social demands from the population...[and] to utilize social policy issues for their own electoral advantage” (Kwon 1998:49). Conversely, studies have shown that in the absence of electoral pressure, authoritarian state leaders do not have to be concerned about short-term popularity or issues of human rights, and will tend to resort to social repression to silence discontent (Brown and Hunter 1999). In these senses, in Asian states such as Hong Kong, the generation of a new social pact is often connected with democratization.

Conclusion

Historically, the inception of welfare developmentalism occurred with the founding of the residual welfare state in the early 1970s, when rapid industrialization, socioeconomic development and legitimacy crises generated the need for more social provision. The colonial state was, however, careful to subsume the political need for better welfare provision under the general parameters of its inherent policy of economic non-interventionism and financial conservatism, which entailed low public expenditure, a low tax rate and a public sector of limited size. The expansion of social programmes from the 1970s to the 1990s was thus made possible only in a situation of continuous economic growth. Welfare developmentalism in Hong Kong was accordingly characterized by the primacy of capitalist interests and public financial security.

The economic and social policy reforms after the Asian financial crisis signified the end of the old social pact that had been based on societal consensus on economic individualism and a residual welfare state under conditions of continuous economic growth. These conditions have been replaced by an active state management of the economy oriented toward surviving in a globalized world. This survival strategy consists of providing an “investor-friendly” environment by maintaining a financial policy of a low tax rate while pursuing a more interventionist approach in economic development through attempting to upgrade the “transformative capacity” of the state (Weiss 1998). As the state actively engages itself in the management of the economy, the image of the market as an impersonal and objective force has been shattered, and the state’s policy action or inaction has become a political matter with implications for questions of distribution, class interest and social justice. In order to maintain its low-tax regime under a situation of financial austerity, social policy reforms have been carried out that will reduce the redistributive effect of social programmes, entitlement claims and the government’s role in direct provision and financing. In short, there has been a developmentalist turn in economic policy and a neoliberal turn in social policy, leading to a stronger state role in economic regulation and the retrenchment of the residual welfare state. Welfare developmentalism, for the postcolonial authoritarian state, thus now entails the subsumption of its social, economic and public financial policy in the logic of economic globalization—that is, to create conditions that are attractive to international capital, keeping taxation low and maintaining financial prudence.

The dissolution of the old social pact has shattered the myth that there is “equal opportunity” for individual effort to pay off and signifies the end of the “Hong Kong dream”, as certain groups are now bound to be excluded from the fruits of economic development. In this regard, it is doubtful that the state’s new approach in economic and social policy can command legitimacy. On the other hand, the prospect for more progressive social policy change lies in the construction of alternative discourses. Indeed, various social groups, including political parties, labour unions, NGOs and professional organizations, have been quite critical of the current trend of development. A stronger societal consensus, however, has yet to emerge on what the new social pact should be like. Much of the generation of this consensus, and its realization, will depend on the prospect of further constitutional reform.

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