

## Original Paper

# Hong Kong's Welfare System Under "Starting a New Chapter": History and Prospects

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### Abstract

*"Starting a new chapter for Hong Kong together" is the campaign slogan shouted by Mr. John Lee, the new chief executive of Hong Kong, under the new background of Hong Kong's development. To start a new chapter, the primary goal is to solve various social problems accumulated in Hong Kong in the past, so Hong Kong's welfare system should be reformed. This paper first analyzes the development history, current characteristics and driving factors of Hong Kong's welfare system, finds that the progress of Hong Kong's welfare system has been slow and it is difficult to respond to new social problems such as the large rich-poor gap, aging population, and working poverty, although Hong Kong has relatively comprehensive social welfare as an developed region. Where will Hong Kong's welfare system go to start the new chapter? Starting from the real situation, this paper believes that Hong Kong will inevitably move towards a "People's Livelihood-Oriented Active and Moderate Inclusive" welfare system based on the new government's policy address and budget.*

### Keywords

*Hong Kong welfare development process, welfare system characteristics, driving factors, future direction of Hong Kong welfare*

### 1. Introduction

2023 is the first year when "one country, two systems" enters the second half, and it is also a new stage of development for Hong Kong. The new chief executive, John Lee, described this historical moment as "starting a new chapter for Hong Kong". Facing many deep-rooted contradictions accumulated in Hong Kong society in the past, the Hong Kong government need solve problems for people's livelihoods and maintain harmony for society effectively and urgently. As an important tool to improve and enhance people's material and spiritual life, where should the welfare system go in the new social

context and development goals? To answer this question, this paper reviews Hong Kong's welfare model, and analyzes the future direction of Hong Kong's welfare system.

## **2. The Development Process of Hong Kong's Welfare System**

### *2.1 Early Social Welfare in Hong Kong*

Hong Kong's early welfare work relied entirely on charitable organizations with rescue nature such as Tung Wah Group of Hospitals or Po Leung Kuk. The main beneficiaries were vulnerable groups such as the elderly, the weak, the sick and the disabled. This government-missing social welfare system was able to operate for a long time for several reasons: First, in terms of culture, Hong Kong culture actually has a typical marginal cultural tendency, which means that it has been influenced by traditional Confucianism as well as Buddhism and Christianity. So the society has always had a good atmosphere of charity culture (Ai & Zhang, 2013); second, politically, the British Hong Kong government set Hong Kong as "tax-free port". It used Hong Kong's superior geographical environment and liberal economic system for colonial rule and didn't have the motivation to establish welfare system; third, in terms of social mentality, the early population mainly came from mainland immigrants. On the one hand, they rarely regarded Hong Kong as a permanent place of residence; on the other hand, they regarded economic interests higher than other interests, so they did not have a strong desire for high welfare.

After the end of World War II in 1945, Hong Kong began its first economic transformation: developing labor-intensive export-oriented industries. From 1947 to 1964, Hong Kong's fiscal revenue soared from HKD 0.08 billion to HKD 1.52 billion. This provided an economic foundation for the British Hong Kong government to develop a welfare system. At the same time, nearly one-quarter of Hong Kong residents were homeless, and many people were forced to live in squatters which is made by iron sheets and wooden boards (Wang & Wang, 2006) due to war reasons. Finally, a big fire at Shek Kip Mei in 1953, which left fifty thousand squatter residents homeless, made British Hong Kong government realize the necessity of taking social responsibility. The Social Welfare Department was established in 1958 to provide systematic social services; in 1965, the first social welfare white paper was issued to indicate the purpose and direction of social welfare development, which marked that Hong Kong had entered the orbit of welfare system development.

In the 1970s, the Financial Secretary proposed "positive non-interventionism": emphasizing the importance of free operation of market; on the other hand, not excluding reasonable intervention by government where market failure occurred. This proposal had far-reaching impact on policymaking of British Hong Kong government and cleared theoretical obstacles for government intervention into welfare field (Zhao, Yan, & Liang, 2016). Therefore, seventies were an important period when basic framework of welfare system was formed in Hong Kong society (see Table 1).

**Table 1. Initial Framework of Hong Kong Welfare System**

Established	1971	1973	1973	1953
System	Public Assistance	Public Benefits	Emergency Relief Fund	Workers Compensation
Content	Ensure food and clothing	Provide subsidies for the weak	Aid with victims or disaster victims	Protect the rights of injured workers

### *2.2 The Gradual Development of Hong Kong's Welfare System*

Since the 1980s, Hong Kong has experienced the second economic transformation: the northward relocation of industry and the development of a service-oriented economy with “shops in front and factories in back” based on the Chinese mainland. While society has developed rapidly, it has also accumulated many problems. First, Hong Kong's population structure has undergone significant changes. The proportion of people aged 65 and over increased from 6% in 1977 to 11% in 2000. Second, the free-market economic development policy has widened the gap between rich and poor. From 1971 to 2001, Hong Kong's Gini coefficient based on household income rose from 0.43 to 0.525. Third, as labor-intensive industries moved northward, employment opportunities in Hong Kong decreased and unemployment rates rose. From 1989 to 2003, Hong Kong's unemployment rate rose from 1.2% to 8.5%. To provide a stable social environment and promote economic growth, the British colonial government began developing special welfare and social welfare services such as public education, public health care, and public housing. The most important welfare systems were established during this period.

It is worth noting that since the beginning of Sino-British negotiations in 1982, the British colonial government changed the governor's responsibility system and accelerated democratic elections and political party establishment to “reject communism” (Cao & Cao, 2017). On the one hand, this measure laid hidden dangers for politicizing welfare issues in Hong Kong; on the other hand, it also indeed caused Hong Kong citizens' awareness of welfare rights to emerge. Different groups such as political and business elites and middle- and lower-class forces began to struggle with each other.

During this period, although the British colonial government still emphasized individual responsibility and welfare dependence issues and its attitude towards undertaking social services was still very cautious, Hong Kong's welfare beneficiaries have extended from “the most helpless” to ordinary residents. Moreover, Hong Kong citizens have established awareness of welfare rights. So, Hong Kong's welfare system has made great progress.

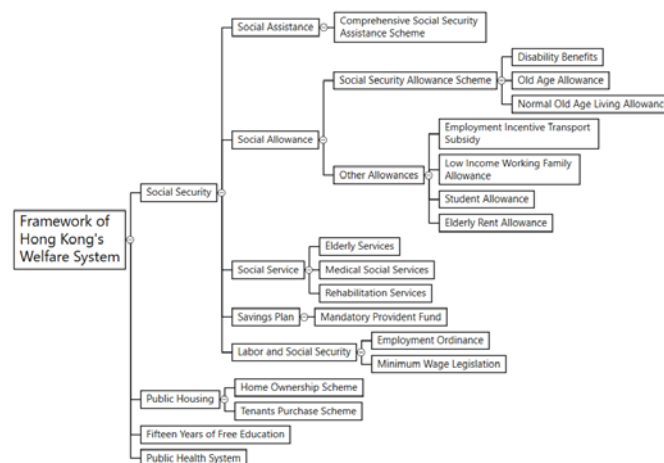
### *2.3 The Selective Expansion of Hong Kong's Welfare System*

At the time of Hong Kong reunification in 1997, the Asian financial crisis broke out and had a severe impact to Hong Kong's economy (Cai, 2017), which was at the peak of the bubble. Economic problems

accumulated during colonial times continued to be exposed, which led to a six-year economic downturn in Hong Kong. To get rid of huge financial pressure, the Hong Kong government has adjusted the welfare system, including introducing the concept of “work welfare”, indefinitely suspending the construction and sale of public housing, subsidizing non-government organizations and privatizing welfare with the “block grant” etc., to achieve “cutting expenditure” purpose.

Since the Chinese mainland and Hong Kong signed CEPA and other in-depth cooperation programs in 2003, Hong Kong’s economy has begun to bottom out, and GDP growth has returned to a medium-to-high rate of 6% to 8%. Correspondingly, social welfare has also grown slowly. The first is the Hong Kong Comprehensive Social Security Assistance Scheme (referred to as CSSA), which has continued to develop on the basis of the original public assistance system and has become a comprehensive social safety net with unique Hong Kong characteristics; in addition, the Hong Kong government has established the “Commission on Poverty” and “Community Care Fund”, and proposed “Employment Transportation Subsidy”, “Low-income Working Family Allowance” and minimum wage legislation to establish a second safety net to help a group of Hong Kong residents who are employed but whose income is still below the poverty line, which was HK\$4,400 per month in 2020.

However, these policies are all just a simple response to new social problems such as working poverty and the large gap between the rich and the poor. Hong Kong did not reform its welfare system under the historical opportunity of relying on the Chinese mainland and economic recovery. Its essence is still to support “people who cannot help themselves”. Perhaps the Hong Kong government’s welfare policy philosophy still believes that social security is a palliative measure, and relying on the free market and capital to create sufficient education and job opportunities is the fundamental solution.



**Figure 1. Framework of Hong Kong’s Welfare System**

### 3. Characteristics of Hong Kong's Welfare System

The academic research on the characteristics of Hong Kong's welfare system mainly has the following two perspectives: one is based on the classification method of Richard Titmuss. Hong Kong belongs to the Residual Welfare Model by this method (Li & Yan, 2018), that is, it advocates market and family responsibility, and the government provides an "emergency safety net" when the former two fail; the second is based on the comparative analysis between China and the West. It is believed that Hong Kong belongs to the "East Asian Welfare Model" (Kwon, 2005), that is, the government takes economic development as the main goal, and the welfare system plays a subordinate role in economic development, and welfare investment is concentrated in the fields of human resources such as medical care and education.

Combined with Hong Kong's specific welfare policies, both statements are biased. First, Hong Kong does have the characteristics of Residual Welfare Model: the government abides by the concept of "non-intervention", advocates the value of self-reliance and hard work, and establishes a strict CSSA review mechanism. But Hong Kong also has free medical care and education benefits for all, and the government is not limited to a "remedial role". It is also inaccurate to classify Hong Kong as an East Asian welfare model, which is originated from the comparative study of the welfare system (Li, 2015). The characteristics extracted from this model are too general to fully summarize the characteristics of Hong Kong's welfare system (Yang, 2016). In fact, Hong Kong, as a highly developed and densely populated region, like most developed regions in the world, encountered various social problems during its development, and began to respond to these problems, and established an increasingly comprehensive welfare system, and gradually formed Hong Kong's own characteristics under the background of Hong Kong's unique history, culture, politics, and economy.

**First, Hong Kong has similar welfare level to that of welfare states in terms of medical care, housing, and education.** Take housing policy as an example. Like most welfare states in the world, Hong Kong has gone through a development stage from solving the housing shortage to establishing housing supply system (Yang, 2017). Before the 1980s, Hong Kong's housing policy was the "Ten-Year Housing Plan", which aimed to provide public rental housing for low-income groups. Then with the increase of residents' income and demand, the British Hong Kong government further launched the "Home Ownership Scheme" and "Tenants Purchase Scheme", which sold public housing at prices far below the market price to give home ownership for low-income groups. Hong Kong also adopts a market-oriented operation method in management. On the one hand, private institutions are introduced to participate in the construction of public housing, and on the other hand, the competent department "Hong Kong Housing Authority" has been an independent organization to achieve self-finance and ensure the sustainability of public benefits. At present, about 3.386 million residents live in public housing or subsidized sale flats, accounting for 45.7% of the total population of Hong

Kong. Judging from the main housing policies of the welfare states, Hong Kong already has a very complete housing welfare policy in form (see Table 2). In terms of medical treatment, the medical expenses in public hospitals are extremely low, achieving high fairness and accessibility, and Hong Kong has the highest life expectancy and the lowest infant mortality rate in the world; in terms of education, Hong Kong has 15 years of free education and world-leading higher education. It can be seen from Table 3 that the Hong Kong government's investment in medical care, housing and education is close to the level of the traditional welfare states.

**Table 2. Characteristics of Welfare State Housing Policies and Corresponding Hong Kong Housing Policies**

Characteristics of Welfare State Housing Policy	Hong Kong Specific Housing Policies
privatization of public housing	Home Ownership Scheme; Tenants Purchase Scheme.
Monetizing government subsidies	Home Ownership Loan Scheme; Elderly Rent Allowance.
Market-oriented management	Introduce private organizations to participate in public housing construction; The Hong Kong Housing Authority is self-financed.
diverse community	The Housing Department is responsible for coordinating the construction of supporting facilities

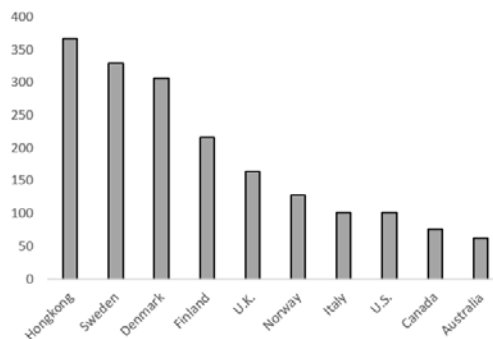
**Table 3. Public Expenditure as Percentage of GDP in some Countries or Areas in 2019**

	Housing	Health Care	Education
Hong Kong	1.04	6.8	4.3
U.S.	0.2	8.4	5
U.K.	1.1	7.9	4.4
Sweden	0.4	6.6	7.6
OECD average	0.3	5.8	-

*Data source:* OCED Social Expenditure database, Hong Kong Gov, World Bank

**Second, Hong Kong's special history has made this land have unique welfare culture.** Hong Kong society is dominated by Chinese, so it has inherited two major characteristics of Chinese society. First is the concept of family and clan, which means that the first responsible unit for difficulties is the family, followed by the clan. They rarely seek help from the government. Second is the desire for

“Great Harmony Society”, which formed traditional charitable organizations such as Tung Wah Group of Hospitals and Po Leung Kuk. In addition, Western church groups have also had a huge impact on Hong Kong society, and many educational, medical and welfare institutions are still closely related to Catholicism and Christianity. Unlike Chinese society’s helpfulness, which needs to consider bloods and relatives, their welfare concept of “fraternity” transcends blood and national boundaries. Although this spirit has not become the HK’s mainstream thinking, it has influenced the development of Hong Kong’s welfare system through many social service talents who have this belief (Zhou, 2013). Influenced by this special welfare culture, Hong Kong’s welfare system relies on direct social work services, which is different with traditional welfare states who focuses on social insurance and social relief. At present, there are 27,171 professional social workers and more than one million volunteers in Hong Kong, ranking the top in the world (Figure 2). And more than 4,000 non-governmental welfare service organizations undertake nearly 80% of personal social services in HK.

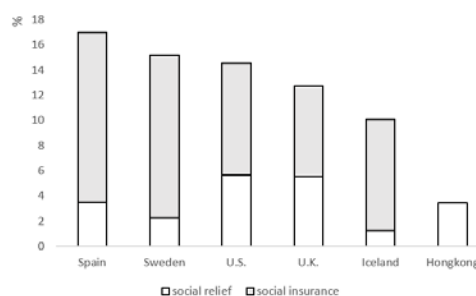


**Figure 2. Number of Pro Social Workers in HK and Other Countries (per 100K people)**

*Data source:* Official websites of national associations of social workers

**However, the biggest difference between Hong Kong and the welfare states is that Hong Kong does not have a contributory social insurance system.** In 1995, the Mandatory Provident Fund (MPF) was implemented, and responsible by the Hong Kong Mandatory Provident Fund Scheme Authority (MPFA). It requires both employer and employee to contribute 5% of the employee’s income (with upper and lower limits) to the employee’s personal fund account which is managed by 15 companies approved and regulated by the MPFA. The fund can only be withdrawn when the employee reaches the age of 65. MPF is essentially compulsory savings (Lei, 1998), which replaces the public pension plan that needs government management and embodies redistribution function, so this reduces the burden on the government. **Another major problem in Hong Kong’s welfare system is the backwardness of social security and labor security.** Influenced by the British tradition concept of helping the poor, HK’s social welfare focuses on audit-style social assistance (Yue, 2017). Taking CSSA, its core content,

as an example, CSSA has a wide range of recipients and various cash subsidies, which actually bears functions of various systems such as unemployment assistance, disability benefits, and pensions. But the level of assistance of CSSA is low (Figure 3), and the asset survey has obvious shameful features. Compared with the generous support in the United Kingdom, CSSA details the difference in different applicants' assistance, and adopts strict qualification review, and lowers the amount of assistance to emphasize the value of personal work and avoid welfare dependence. In 2020, the average monthly CSSA payment per person is 4,390 HKD, which is lower than the poverty line of 4,400 HKD that year. In terms of labor security, HK's labor policy focuses on the operation of free capital market, so the protection of labor rights is also lacking (Li, Zhao, Chen, & Liang, 1999) (Table 4).



**Figure 3. Public Expenditure on Social Relief and Social Insurance of Hong Kong and some Welfare States as a Percentage of GDP in 2019**

*Data source:* IMF Government Finance Statistics database

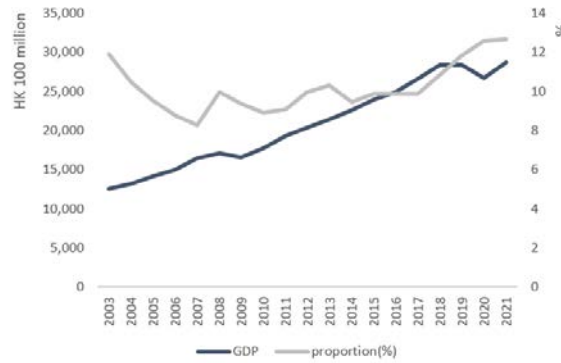
**Table 4. Percentage of Occupational Income in Total Market Cash Income in Hong Kong**

Source of income	2001	2006	2012
career income	88.1%	86.1%	85.7%
other cash receipts	11.9%	13.9%	14.3%

*Data source:* Hong Kong Census and Statistics Department

**In addition, Hong Kong's welfare system has the problem of low expenditure.** Hong Kong gov's expenditure on education, health, housing, and social security remains between 9% and 13% of GDP (Figure 4), which is significantly lower than that of welfare states (see Table 5). This has led to a prominent contradiction between the supply and demand of public services. Elderly services, public medical care, and public housing all have problems of shortage of supply (Cai, 2011). Take public nursing home as an example. At present, the overall waiting time is 20 months, while it took 37 months in 2019 before the outbreak of Covid-19.





**Figure 4. Trend of HK Government's Social Welfare Expenditure as Percentage of GDP**

*Data source:* Hong Kong Census and Statistics Department

**Table 5. Trend of Proportion of Social Welfare Expenditure to GDP in some Countries or Areas**

	2005	2010	2015	2017	2018	2019
U.K.	12.71	14.73	13.86	13.15	12.96	12.85
U.S.	11.52	15.27	14.59	14.52	14.37	14.57
Sweden	17.45	16.91	16.75	16.49	16.17	15.78
Spain	13.94	18.03	18.43	17.85	18.00	18.45
Iceland	6.00	7.20	6.13	6.49	6.63	7.31
Finland	17.8	19.9	22.45	21.63	21.27	21.16
France	22.97	25.11	25.89	25.67	25.4	25.29
Germany	25.44	24.76	23.85	24.02	23.94	24.35
Denmark	17.65	18.8	18.48	17.51	17.18	17.18
Canada	8.23	9.59	9.68	9.98	9.93	10.06
Australia	10.99	10.74	11.72	11.28	11.08	11.07
Norway	15.09	15.54	17.03	17.22	16.36	16.91
Italy	18.95	21.41	22.77	22.26	22.27	22.65
Average	15.29	16.77	17.05	16.77	16.58	16.74
Hongkong	9.52	8.9	9.9	9.9	10.8	11.8

*Data source:* IMF Government Finance Statistics database, HK Census and Statistics Department

#### 4. The Driving Factors of Hong Kong's Welfare System

The two core issues of social welfare research are the emergence of the welfare system and the factors that determine the development of social welfare (Gao, 2010). The following part of this paper discusses different forces, and how these forces jointly shape Hong Kong's welfare system.

**One is the concept of government.** Hong Kong politics has been influenced by "colonialism" for a

long time. Before the return of Hong Kong, the British Hong Kong government's primary goal was to maximize the interests of the suzerain country. Therefore, it often only considered economic development, implemented a low tax system, emphasized labor ethics and work values, safeguarded the interests of business elites, and inhibited diverse social values. To package colonialism, the British Hong Kong government insisted on "positive non-intervention", claimed that the free market is the foundation of HK's economic, and expanding the content of welfare will destroy Hong Kong's economic development (Li & Yan, 2018). Regardless of how much the liberal economic system has helped HK's economic development, which has a huge controversy (Xue, 2017), such a set of development logic embellishes the fundamental purpose of the British Hong Kong government's colonization and evades the government's responsibilities. After the return, the Hong Kong government was still influenced by the concepts of "laissez-faire" and "positive non-intervention" (Xue, 2017), so the welfare policy basically focused on social assistance and human resource investment, lacked effective redistribution mechanism and social insurance system (Ouyang & Huang, 2017). The Hong Kong government's welfare policy has the following two characteristics: (1) Lack of long-term welfare service plan; (2) Fiscal conservatism. In the 2021 fiscal year, the government's fiscal revenue is HK\$693.6 billion, 16% higher than expected, while government expenditure is HK\$693.3 billion, 4% lower than forecast. Such government concepts and welfare policies make the development of Hong Kong's welfare system slow.

**The second is social concepts.** In the book "The Political Mentality of Hong Kong People", Professor Zhaojia Liu of the Chinese University of Hong Kong found that 57.5% of Hong Kong people supported the laissez-faire government policy. However, their attitudes have taken 180-degree turn for specific economic functions of the government: more than 70% of the people interviewed not only hope that the government will do something in areas such as setting minimum wages and controlling the prices of daily necessities, but also hope that the government will actively control commercial fraud, heavily tax the rich, make long-term development plans etc. Regarding this contradiction in people's cognition, Liu believes that it is the interaction result between the lack of actual content of the concept of Hong Kong's liberalism and the traditional Chinese concept of family-country. First, like the rhetoric used by the British Hong Kong government to package colonialism, the Hong Kong people accept the concept of laissez-faire only out of its utilitarian value, that is, they regard liberalism as the cornerstone of Hong Kong's economic prosperity. Different from American liberalism, Hong Kong liberalism embodies the restraint of individualism and trust in the government of Hong Kong people. Second, the traditional concept of family-country in China believes that it is reasonable and legal for the government to intervene in the market for social harmony. Furthermore, Hong Kong currently has a wide gap between the rich and the poor. The latest data shows that the Gini coefficient of Hong Kong in 2016 was 0.539. Based on the above factors, Hong Kong people have very high expectations for social welfare, and the

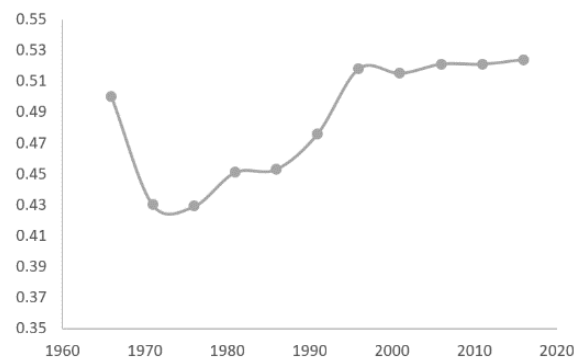
welfare system has increasingly become a social issue, which has undoubtedly promoted the development of HK's welfare system. However, Hong Kong society does not have a general understanding that "welfare rights are citizenship rights". In Liu's questionnaire, 47.7% people believed that welfare means helping those in need, and another 47.7% believed that welfare is the right of every citizen. In fact, traditional Chinese culture believes that when people are in misery, the government is obliged to provide welfare, but this is not what the people should ask for and is the government's responsibility based on morality and prudence. So, it impossible for Hong Kong society to reach a consensus on the issue that welfare rights are citizenship rights, and it is also doomed that Hong Kong's welfare system will not be able to move towards the path of western welfare states in the short term.

**The third is class interests.** Hong Kong's welfare system has been wrestling with various social forces (Ouyang & Huang, 2017). One is capital interests. Hong Kong capital and enterprises support a low tax system and oppose any welfare expansion or policies that lead to rising labor costs, such as legislative minimum wage increases. The current minimum hourly wage in Hong Kong is 37.5 Hong Kong dollars per hour, which is far below the minimum wage standards in European and American countries, and is extremely disproportionate to Hong Kong's development and price levels. However, in the long run, some welfare systems, such as low-income working family allowances, transportation allowances, tax relief etc., have the opportunity to improve the quality of labor and promote industrial upgrading, thus being welcomed by capital and enterprises. The second is the middle class. They also have mixed feelings about the welfare system. On the one hand, they are contributors to social welfare, but on the other hand, they are excluded from the censored social welfare. In addition to being sympathetic to poor people receiving welfare, they may also reject the welfare system. However, the middle class also faces economic risks and old age problems. Their trust in market risks, their own security capabilities and government power determines their attitude towards the welfare system. The third is labor and grassroots personnel. Their influence is mainly concentrated in various trade union organizations, social welfare organizations, and grassroots political parties etc. They can be seen in fields such as fighting for universal pensions and legislating minimum wages.

In general, the most important factor hindering the development of Hong Kong's current welfare system is the wave of neoliberalism that has swept the world since the 1970s (Ouyang & Huang, 2017). It arose with the bankruptcy of welfare state policies and was a political-economic philosophy advocating a return to classical liberalism. Neo-liberalism coincides with the concept of "non-intervention" of the British Hong Kong government, which makes Hong Kong deeply influenced by neo-liberalism and is at the forefront of the global neo-liberalism wave (Yuan, 2023). Many social problems in Hong Kong society can be seen as the result of the development of global neoliberalism, which has seriously hindered the reform of Hong Kong's welfare system.

### 5. The Future Trend of Hong Kong's Welfare System

Over the past two decades, Hong Kong society has been struggling with turmoil. There are thousands of demonstrations, marches and protests every year, and they have intensified. What's wrong? I believe that the fundamental problem in Hong Kong lies in people's livelihood issues: insufficient upward mobility of young people, lack of protection of labor rights, no support for old people, widening gap between rich and poor (see Figure 5), rising cost of living, etc. which constantly sting Hong Kong society, and then being used by western anti-China forces: propagating "democracy" is a panacea to solve all problems, confusing the two concepts of "local democracy under national sovereignty" and "dictatorship" (Zhuang, 2015), and then pointing the finger at "One country, two systems" and the Chinese government. This has caused the "pan-politicization" of social issues in Hong Kong, severe divisions in Hong Kong society, and political confrontations within the Legislative Council, which has further made the Hong Kong government difficult to do anything, then the problems of people's livelihood have intensified again, thus falling into a vicious circle from which they cannot extricate themselves. After the promulgation of the Hong Kong National Security Law in 2020, political interference from the Hong Kong opposition and external forces has been eliminated. For Hong Kong, this is a new beginning and a great opportunity. It is entirely possible for Hong Kong's welfare system to get rid of the status quo of stagnation and achieve a "path breakthrough".

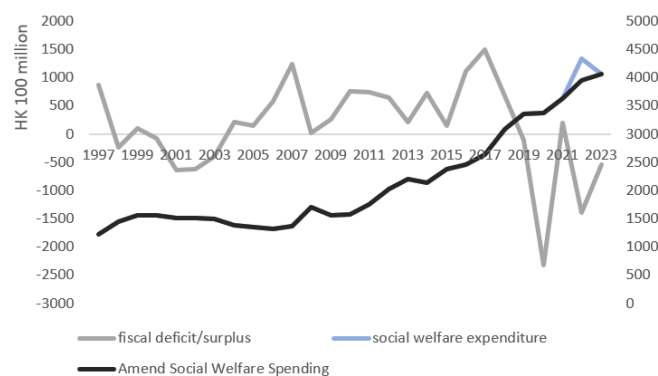


**Figure 5. Trend of Hong Kong's Gini Coefficient**

*Data source:* Hong Kong Census and Statistics Department

In May 2022, John Lee was elected as the Chief Executive of the Hong Kong Special Administrative Region. The new chief executive released the election platform of "Starting a new chapter for Hong Kong" and published his first Policy Address in July, whose philosophy is "people-oriented, while emphasizing results as the goal and doing practical things for the citizens". For a long time, Hong Kong's welfare policy has been based on the market, aiming at equality of opportunity rather than equality of results, and pursuing economic benefits. This time, the Policy Address of the John Lee

government directly confronts the long-standing problems in Hong Kong, and proposes to strengthen the government's governance capabilities, provide more places to live, and build a caring and inclusive community. Specifically, in terms of housing, the government decides to increase the supply of land and public housing; in terms of medical care, the government decides to strengthen the construction of grassroots medical care, shifting from “emphasis on treatment and neglect of prevention” to “emphasis on prevention and early treatment” to ease the pressure on public hospitals; reorganizing the Commission on Poverty, continuing targeted poverty alleviation and optimizing the legal minimum wage review mechanism, etc. In February 2023, the government's budget for the new year has been released. The biggest feature of this budget is that it insists on a fiscal deficit budget, and welfare expenditures rise instead of falling. The last time Hong Kong experienced a fiscal deficit was during the Asian financial turmoil and the SARS epidemic from 1998 to 2003. In order to balance fiscal revenue and expenditure, the government cut welfare expenditures (see Figure 6). However, the government has insisted to increase the scale of welfare expenditures this time despite a cumulative deficit of 353.4 billion in the past three years of the epidemic, which reflects the government's courage and determination to solve people's livelihood problems.



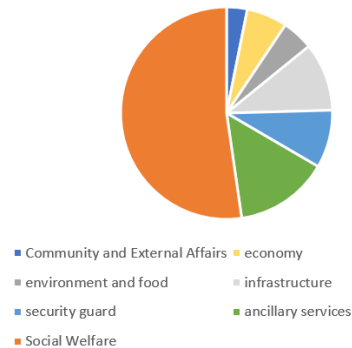
**Figure 6. Trends in the Fiscal Deficit/Surplus and Social Welfare Expenditure of HK Gov**

(“Amend” refers to the removal of abnormal medical expenses caused by the epidemic in 2022, and the expenditures for 2022 and 2023 are budget figures)

*Data source:* Hong Kong Census and Statistics Department, Annual Budget Report

I believe that Hong Kong's future welfare system must be “People's Livelihood-Oriented Active and Moderate Inclusive” welfare system. The concept of “moderate inclusiveness” first came from the China Civil Affairs Ministry in 2007. It is the goal of planning the transformation of the mainland's welfare model from “Residual Welfare Model” to a higher level. I borrow this concept and modify it to make it have Hong Kong characteristics and conform to Hong Kong model. First, “people's livelihood orientation” is an issue related to the values of the welfare system. In the past, Hong Kong was a

paradise for investors. The government regarded social policies as a tool to invest in and maintain the market. It was worried about welfare dependence and trusted market forces too much, thus “favoring” capital and enterprises. At present, no matter it is the urgency of the people’s livelihood issue objectively or the new “people-oriented” governance concept subjectively, it is determined that the focus of the next stage of Hong Kong’s welfare system is to solve the people’s livelihood issue. Secondly, “moderate inclusiveness” involves the welfare objects and welfare levels of the welfare system. Judging from the population covered by Hong Kong’s welfare system and the proportion of welfare expenditures, Hong Kong is doing very well: nearly half of the population lives in public housing or subsidized sale units, and medical care and education are almost free for all residents; although social welfare expenditures only account for 10% of GDP around, but accounted for more than half of government spending (see Figure 7). At present, based on comprehensive consideration of Hong Kong’s international status as a financial center and other factors, Hong Kong must generally abide by the fiscal discipline of the Basic Law. If the tax system is not reformed or the market is not required to “do more”, Hong Kong’s welfare must be moderate expenditure. But the key is the issue of fairness and division of responsibility. Now, the Hong Kong government’s welfare policy is still based on the trickle-down effect, lacking the means of precise poverty alleviation and secondary distribution. How to really use the limited welfare to those who need it most is an urgent problem to be solved in Hong Kong’s welfare system; in addition, I noticed that the Hong Kong government’s welfare policies tend to be all-encompassing. In the latest Policy Address, the housing strategy is to provide more public housing, but does the Hong Kong government really has the ability to directly pay for universal healthcare and housing? In fact, as a government that must spend “moderately”, the planning of Hong Kong’s welfare system should have a clear division of responsibilities: what should the government undertake? Which ones are borne by the market or individuals? A welfare system with multiple subjects is the future in Hong Kong. Thirdly, “activity” emphasizes that Hong Kong’s welfare policy must change from the previous inertia of “sewing and patching” and continue to respond to emerging issues of people’s livelihood during social development. Under the background of the new era, it is the general trend for the government to abandon the policy concept of “small government, big market” and “positive non-intervention”. The problem lies in how the Hong Kong government adjusts its position and finds a balance between the market and policies. This requires the government to keep trying. All in all, considering the background of the times and the reality of Hong Kong, as well as the major adjustments shown by the new Hong Kong government, the optimal solution for Hong Kong’s future welfare system should be “People’s Livelihood-Oriented Active and Moderate Inclusive” welfare system.



**Figure 7. Proportion of Various Government Expenditures in HK in 2019**

*Data source:* Hong Kong Census and Statistics Department

## 6. Conclusion

Finally, I simply put forward some suggestions for the development of Hong Kong's welfare system. One is to keep up with the times and integrate into the overall situation of national development. In the past, Hong Kong was always considered to be short of land. In fact, a large area of land in the New Territories in the north of HK has not been developed. Among them, Tin Shui Wai was called "sad city" by Carrie Lam, which is because that it is full of public housing, lacks supporting facilities and has high unemployment rate and crime rate. To integrate into the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, the Hong Kong government proposes the strategy of developing the northern metropolitan area last year, which can not only increase land supply, but also alleviate social conflicts and increase development momentum for Hong Kong's welfare. The second is system reform to achieve sustainable and healthy development. Hong Kong is deeply influenced by neo-liberalism. If it plans to solve the welfare problem only by government finances, the welfare system cannot last long. Take Hong Kong's medical and health reform as an example. With the aging process, Hong Kong's public hospitals are overcrowded, and the waiting time is as long as several to tens of weeks. Public medical finance has become a huge burden for government: medical expenditure accounted for 13.6% of total fiscal expenditure in 2019, and is expected to reach 30% in 2030 (Yang, 2017). If Hong Kong is unwilling to change the existing tax system to expand fiscal revenue, then the Social Medical Insurance Plan is imperative. In fact, Hong Kong companies should assume social responsibilities, a welfare system with multiple subjects is the future in Hong Kong. The third is to reshape beliefs and find the value orientation of the welfare system. Welfare not only represents material provision, but also represents a kind of social spirit. In the past, the outside had many misunderstandings about Hong Kong. Now, how Hong Kong uses the welfare system to show the citizens and the world that Hong Kong is also a warm and caring city, and a place of fairness and hope, needs government to take people's livelihood and well-being as its belief, reset the value orientation of the welfare system and

implement it.

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