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The Feasibility of Contributory Social
Security Schemes in Hong Kong: A Study
of Employers' and Employees' Opinions

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by

Nelson W.S. Chow

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CHAPTER ONE

THE ISSUE

Since its introduction in the last century, social security has become an important social and economic institution in most countries of the world. The 1977 edition of "Social Security Programs Throughout the World" published by the Social Security Administration of the U.S. Department of Health, Education and Welfare reported 129 countries as having some type of social security programmes.¹ All of them provided benefits against the risk of work injuries, and some also covered others like old age, invalidity, survivorship, sickness, maternity, and unemployment.² Despite the variations existing in the range of risks covered and the amounts of benefits provided, some form of income protection is commonly considered essential and desirable. Indeed, the prevalence of social security suggests that it would continue to be an important institution in most countries.

Social security consists of two main types of schemes depending on a person's employment status.³ Employment related schemes cover the employed and their dependents against such risks as old age, invalidity, work injuries, sickness, maternity and unemployment. These schemes are part and parcel of the work contract and are directly related to risks arising out of employment. Non-employment related schemes like public assistance (supplementary benefits) and universal allowances (demogrants), on the other hand, provide benefits based on a person's right as a member of a particular society: they represent a recognition of a society's

responsibility towards its members in fulfilling certain of their basic needs.

Social security schemes are normally financed from three main sources: a percentage of covered wages or salaries paid by the employee, a percentage of covered payroll paid by employer and, in some cases, a government contribution.⁴ This tripartite financing system, or a bipartite system with only employees and employers contributing, is usually adopted for employment related schemes. In countries where contributory schemes are yet to be introduced, legislations are often enacted to oblige employers to provide the necessary benefits, though such provisions are as a rule limited in scope and inadequate in amount.⁵ They form a part of the social security programme but, in nature, they are different from contributory schemes. Whether employment related social security schemes should be financed by contributions or regarded as the sole liability of employers is still a controversial question. But contributory schemes give the impression that employees are directly ensuring their own future.

Putting aside the funding question, it has to be admitted that the risks now normally covered by social security can no longer be left to the initiative of individuals; they must be taken care of by some collective measures. Judging from this angle, public assistance and universal allowances, representing as they do a form of collective action, may not be very different from social insurance as they all imply an allocation of community resources. The ultimate level of social security provided in a society is in the final analysis determined by the availability of fin-

ancial resources and there is no rule for a definite provision. A social security programme far exceeding the resources of a society cannot thus exist long and its rate of expansion must be preceded by similar advancement in the economy.⁶

Though the ultimate level of social security provided must be in harmony with the overall economic development, the type of schemes in operation has however a direct effect on the living standards of different sectors of the population. It also determines the redistribution of resources as brought about by the provision of social security. In general, a progressive programme redistributes resources from those who "have" to those who "have not" while a regressive programme produces an effect in the opposite direction.⁷ Social security programmes in most countries have, however, an additional function of helping individuals to redistribute their resources from times when they have more to times when they have less. The increasing involvement of governments in social security ensures that the redistribution is generally to the advantage of the less well-off.

Social Security in Hong Kong

Compared with other countries, social security has only a short history in Hong Kong. Some kind of public relief measures had been in existence since the ceding of the Colony to the British but in the early days, the burden of relieving the poor rested primarily on some traditional and religious organizations like the Tung Wah Group of Hospitals

and the Protestant and Catholic missions.⁸ A cash public assistance scheme was not introduced in Hong Kong until 1971 when it was evident that overseas donations were no longer forthcoming.⁹ The transfer of responsibilities from voluntary organizations to the Government and the institution of a cash assistance programme went a long way in ensuring a minimum living standard for people in Hong Kong. As a means-tested scheme, public assistance is necessarily stringent in criteria but it has proved to be an essential social welfare measure and has substantially relieved the hardship of the poorest in Hong Kong.

The introduction of the Disability and Infirmity Allowance Scheme (DIA) in 1973 was rather unexpected since these allowances are non-means-tested and given to all who satisfy certain criteria. The Scheme is not unlike other universal allowances such as family benefits, its greatest advantage being its ease of administration, and it does not affect the operation of the public assistance scheme.¹⁰ However, for the very reason that the Scheme is non-means-tested, the allowances provided for an individual recipient can only be nominal in amount and inadequate by themselves. In other words, recipients who are well-off would find the allowances immaterial while those in need of assistance would hope for a more generous provision. The group who would find greatest help from the allowances are those already dependent on public assistance; to them any additional benefit would be most welcome.

Expenditures on the two special needs allowances (formerly the

Disability and Infirmity Allowance Scheme) presently provided were estimated to exceed HK\$200 million in 1979/80 and the amount is rather out of proportion to the expenses on other social welfare items.¹¹ While recognizing the important functions performed by universal allowances, the question that would naturally arise is whether other measures such as the provision of direct services to the aged and the disabled would be more appropriate and less costly. It is not easy to find an answer but it implies that there is a constant need to review the provisions, to formulate the most appropriate approach in social security and reconsider its relationship with other social welfare measures.

Two main types of social security schemes are thus existing in Hong Kong: public assistance and special needs allowances. The latter now provides benefits for those aged 70 and above and the severely disabled. The cost of providing social security is now entirely borne by the Government which in 1979/80 is estimated to be over HK\$400 million, or about 3.2 per cent of the total Government expenditure.¹² The amount cannot be called extravagant but it is rather anomalous that contributory social security schemes are still absent in Hong Kong. Despite the improvements made in recent years, the social security programme in Hong Kong is remaining at a stage where primarily only the financial needs of the destitute, the elderly and the severely disabled are met. The income security needs of the employees, which in other countries constitute the major target, have been left out. So far, rather than instituting contributory social security schemes, the Government has

considered it more appropriate to provide for their needs through the enactment of appropriate labour legislations.

A Workmen's Compensation Ordinance requiring employers to recompense their injured workers was first enacted in 1953. Now, the Ordinance covers all manual workers and non-manual workers earning less than HK\$5,000 a month. In addition to the Workmen's Compensation Ordinance, an Employment Ordinance makes provision for the termination of contracts of employment, payment of wages, protection of female employees during maternity leave, provision of rest days, holidays with pay, sickness allowance and severance payment. This Ordinance applies to all manual workers and non-manual workers not earning more than HK\$3,500 a month. Employees in Hong Kong thus enjoy a certain degree of income protection and this arrangement also gives employers a great deal of discretion to add onto whatever is required by the legislations.¹³ This largely reflects the general non-interference policy of the Government in business matters, but it also implies that so far as the protection of employees is concerned, employers are only subject to minimum requirements. Furthermore, employers are quick to ensure that their obligations are not excessive, with the result that any improvement of labour legislations often becomes a tug-of-war between the Government and employers.¹⁴ The recent controversy over paid maternity leave is an example of the deficiency of an arrangement that requires only the employers to provide the benefits. Schemes which place the sole liability on employers have proved to be most inflexible and the workers who suffer most under this arrangement

are those employed in small establishments and earning low incomes since their employers are the least able to honour their obligations or to provide more than the minimum requirements. Most countries have already replaced such legislations with the institution of contributory schemes requiring both employers and employees to contribute.¹⁵ The responsibility is thus taken away from individual employers.

The feasibility of contributory social security schemes has been discussed in Hong Kong as early as 1965 when the Financial Secretary mentioned that "the Government was prepared to devote serious study to the practicability of certain types of contributory social security schemes."¹⁶ An Inter-departmental Working Party was set up in 1966 to examine the social security system in Hong Kong and to make appropriate recommendations for future development.¹⁷ The Working Party reported in 1967 and observed that there existed in the population a substantial number of old people, widows and divorced, and that the traditional extended family system had been weakening under the pressures of industrialization and over-crowded urban life. And since quasi-insurance schemes already proliferated in Hong Kong, the Working Party rejected the argument that "the principle of financial contribution to social insurance was alien to Chinese thought."¹⁸ A contributory social insurance scheme covering short-term risks was recommended for introduction. When the Report was tabled at the Legislative Council, the Colonial Secretary gave his opinion saying that the suggestions of the Report would prove financially impossible.¹⁹ The Report was subsequently

shelved.

Why should contributory social security schemes be considered impossible in Hong Kong? The 1973 White Paper on the future development of social welfare services in Hong Kong gave three reasons: namely that compulsory contribution would not be acceptable to the people of Hong Kong, that they would place a heavy financial burden on employers, and that the establishment of the necessary administrative machinery would require a lengthy preparatory period.²⁰ The validity of these arguments was open to doubt but it clearly indicated that the Government was not in favour of the introduction of contributory social security schemes.²¹ This attitude was slightly altered in 1977 when the Government published a Green Paper on "A Programme for Social Security Development" in which a proposal was put forward to establish a centrally administered contributory scheme for sickness, injury and death. The Green Paper stated, however, that the scheme would only be implemented when the Government was certain of the approval of the public.²² Even with the publication of the White Paper on "Social Welfare into the 1980's" 18 months later,²³ the Government was still undecided on this matter and the feasibility of contributory social security schemes remained a contentious issue.

Need for Contributory Social Security Schemes in Hong Kong

The establishment of the need for income protection is a pre-requisite for any discussion on the feasibility of contributory social security schemes. In this respect, there is little readily available

information to rely on for a meaningful discussion. The family system in Hong Kong is knowingly rapidly changing to a nuclear type and the old and the weak are increasingly left unattended to by their family members.²⁴ There is evidence to show that a small proportion of the population is desperately in need of financial assistance in order to maintain a living above the subsistence level; they are represented by those receiving public assistance, numbering 47,150 cases at the end of December 1978. But this number is dictated by policies regarding subsistence living and does not accurately delineate the need for income protection. The number of people currently receiving the two special needs allowances is also irrelevant as the Scheme is in no way related to their former incomes. Some recipients like the severely disabled may have never worked before.

A comprehensive social security system in a modern industrial society in fact aims at more than the prevention of poverty; its emphasis is on meeting the income security needs arising out of risks associated with employment. In other words, people covered by social security are not protected because they are poor. On the contrary, they may be working in large establishments, earning steady incomes, and highly skilled. But one day they shall have to retire, and even in the course of their working lives, there is no guarantee that they would not fall ill, become disabled or redundant. To cover these risks, some may have already insured themselves with private insurance carriers but to achieve the widest coverage, a centrally administered contributory scheme has often been considered necessary.²⁵ The problem Hong Kong faces now is no longer

one of relieving the poor but of how to build up a system that would give employees a greater sense of financial security and protect them against the risks that may cause a cessation in income.

The 1976 By-Census recorded a total of 1,411,840 employees in Hong Kong.²⁶ Theoretically, they may all be the target of a comprehensive social security programme but this is unrealistic. So far as the provision for old age is concerned, some form of financial support is needed by all upon retirement. The other risks normally covered by a contributory social security scheme include sickness, disability, survivorship and unemployment. Information on the extent of sickness and its effect on incomes lost is not available. In 1978, 39,623 workers were reported to have been injured in industrial accidents, of which 149 were fatal. Although injured workers are compensated under the provisions of the Workmen's Compensation Ordinance, the benefits are generally inadequate.²⁷ Other types of accidents causing disablement in Hong Kong are also very extensive and traffic accident casualties alone numbered 19,772 in 1978. In summary, though there is no strong evidence to substantially support the need for a contributory social security scheme, the risks faced by employees in Hong Kong are no different from those of their counterparts in other industrial societies. Their need for a comprehensive social security programme is therefore as great as workers elsewhere.

A decision to introduce a comprehensive social security programme is, however, not based on need alone; it is also determined by the

extent to which a society wishes to provide income protection for its members. Admittedly, wishes are difficult to quantify but they can be observed and analysed. The following chapter is an examination of employers' and employees' opinions towards a contributory sickness, injury, and death benefit scheme proposed in the Green Paper on social security development. It is believed that since contributory social security schemes are non-existent in Hong Kong, such opinions, though expressed by only a small sector of the population, are useful indicators of their degree of acceptance. Furthermore, as a majority of the population are unfamiliar with such arrangements, a study of expressed opinions for or against the issue would probably be more enlightening than sample surveys.²⁸ Such an examination would also be more revealing regarding the forces that have been playing behind the issue.

CHAPTER TWO
THE PROPOSAL

A contributory sickness, injury and death benefit insurance scheme was proposed for introduction in a Green Paper on A Programme of Social Security Development with the specification that "only if there is a substantial favourable response will the Government investigate further the details of a scheme."²⁹ No decision has however been made 18 months later when the Green Paper became white in April, 1979. Furthermore, no explanation was given for the delay in reaching a decision except that reactions were not unanimous. A question that naturally arises is when would the Government be prepared to make up its mind on an issue that has been discussed for so long.

In proposing a contributory sickness, injury and death benefit scheme, the Green Paper admitted that "there are still significant social risks which are uncovered," and these most affect an employee when he is "sick, unemployed or retired from work."³⁰ A contributory scheme covering sickness, injury and death would therefore go some way to meet partially the financial needs of those affected. Though retirement from work was accepted in the Green Paper as a possible risk, no proposal was made to include a provision for old age. The suggestion was to give a small retirement benefit in the nature of a "no claims" bonus to members covered by the proposed contributory scheme on reaching retirement. Unemployment was another risk mentioned in the Green Paper but it was not considered to be a contingency needing coverage. In respect of membership, the

proposal was to make the scheme semi-voluntary so that employees could decide whether or not to become members. As to the contribution rate, it was proposed to be fixed at 2 per cent each of the earnings for both employers and employees, subject to an income ceiling of HK\$2,000 a month. Insured members would receive sickness and injury benefits, on meeting such mishaps, at half a month's earnings. Sickness and injury benefits would be given for only a maximum of 3 months and begin after the insured members have suffered from the contingencies for more than a month. Death benefits were fixed at 6 months of a member's earnings and given when he died before reaching 60.

As a contributory social security scheme, the proposal obviously lacks lustre and attraction. The greatest shortcoming of the proposal is its exclusion of a provision for old age. However, it explains why the contribution rate for the scheme could be kept so low, at a total of only 4 per cent of an employee's earnings. The second shortcoming of the scheme is that though sickness and injury are covered, benefits provided are limited to a maximum of 3 months. They will be inadequate for a person suffering from long-term incapacity while temporary illness or incapacity are already taken care of by provisions of the Workmen's Compensation Ordinance and the Employment Ordinance. The income ceiling fixed at HK\$2,000 a month is another deficiency since it implies that the maximum entitlement of a beneficiary in cases of prolonged sickness and injury would be less than HK\$1,000 a month. Although the benefits are given in addition to any compensation a beneficiary may receive, it will

add little to a person earning relatively low incomes. Thus, as a contributory social security scheme, the proposal is ineffective and almost worthless.

The immediate public reaction to the proposal was generally favourable; both employers' and employees' associations supported the idea of a contributory social security scheme though they could not agree on the details. It has to be admitted that the views expressed often represented the opinions of only a small sector of employers or employees; the majority were rather bewildered by the complexities of a contributory scheme and have refrained from giving their comments. Employees' trade unions were notoriously silent on this issue and this was attributed to the low calibre of their leaders. Though unrepresentative, the limited opinions that have been expressed on the proposal would nevertheless have an effect on the decision finally reached by the Government.

On the side of employees, the two associations which have reacted most strongly to the proposal were the Hong Kong Christian Industrial Committee and the Young Workers' Centre at Sau Mou Ping. Both have been deeply involved in improving the welfare of workers and were naturally concerned with the proposal.

Hong Kong Christian Industrial Committee (CIC)

In 1976, the CIC conducted a survey to look into the feasibility of contributory social security schemes and interviewed 500 low and

lower-middle income workers.³¹ 84.4 per cent, or 422 households, replied that they were prepared to participate in a scheme requiring contributions and in order of priority, the most needed benefits were those covering old age, unemployment, handicaps resulting from accidents, and sickness. Based on the findings of the survey, CIC recommended that "(1) The Government should promptly set up a comprehensive social insurance scheme which will ensure a worker and his family protection in case of contingencies; (2) This scheme should be administered by the Government, paid by all employers and employees through compulsory contribution; (3) The initial stage of this scheme should take old age, unemployment, sickness and industrial accident in priority consideration. Later, an overall comprehensive social insurance scheme could be developed."³²

When the Green Paper was published, CIC was naturally enthusiastic to respond and issued one of the most thorough and comprehensive statements on the proposal.³³ In brief, CIC welcome and supported the establishment of the sickness, injury and death benefit scheme and suggested the following modifications:

1. That membership of the scheme should be made compulsory.
2. That it should include all manual workers.
3. That an employee changing from an employer operating a contract-out benefit scheme to an employer participating in the Government operated scheme should not have to wait for 6 months before being eligible for benefits.
4. That sickness benefit should begin the day after an insured employee

has stopped receiving sickness allowance under the Employment Ordinance.

5. That the Government should assess the cost and actual possibilities of extending the payment of sickness and injury benefits beyond 3 months.
6. That the question of payment should be examined in relation to contributions and actuarial requirements.
7. That the support of widows and orphans of deceased employees should be looked into.
8. That payments made under the scheme should not be counted as a form of income in the assessment of eligibility for public assistance.

In addition to the above suggestions, CIC urged the Government to set up a social security advisory board whose function would be to regularly review the existing social security provisions and advise the Government on the desirability and feasibility of future social security development in Hong Kong. Furthermore, CIC urged the Government to educate the public about social security and to formulate plans whereby low income families might be helped.

The Young Workers' Centre at Sau Mou Ping (YWC)

The YWC also welcomed in principle the introduction of contributory social security schemes and reacting to the proposal, the Centre made the following suggestions:³⁴

1. That unemployment should be considered for coverage.
2. That benefits should not be counted as income of a family applying for public assistance.

3. That paid maternity leave should be one of the benefits provided.
4. That benefits for sickness and injury should be $\frac{2}{3}$ of an employee's monthly earnings.
5. That a death benefit equal to 6 months' earnings should be payable to survivors of every insured member who has contributed for 15 years. For each additional 5 years, the benefit should be increased by a further 2 months' earnings.
6. That a lump sum should be payable to every insured member who has reached the age of 55 and it should not be reduced even if he has received other benefits.
7. That members should be able to get back their own contributions, though not their employers, if they want to withdraw their membership.
8. That no income ceiling should be fixed for contribution but benefits should be subject to a maximum.
9. That contracting out should only be allowed when terms of the alternative scheme were demonstrably more favourable.
10. That employees should be represented in a committee administering the scheme and they should constitute the majority.

The Hong Kong Council of Social Service and the Hong Kong Social Workers' Association

The Hong Kong Council of Social Service and the Hong Kong Social Workers' Association, both representing the views of those knowledgeable in social welfare, had also commented on the proposal. They supported the introduction of contributory social security schemes and thought that they had already been delayed for too long. The Council suggested that membership of the proposed scheme should be made compulsory so as

to cover the largest possible number of employees.³⁵ The benefits proposed were considered too meagre and to increase both the range and amount of benefits, the Council proposed to raise the contribution rate for employers and employees from 2 to 5 per cent and the income ceiling from HK\$2,000 to HK\$5,000. The Hong Kong Social Workers' Association suggested similar modifications for the scheme and thought that the contribution rate might be raised from 2 to 4 per cent and the income ceiling from HK\$2,000 to HK\$4,000.³⁶

Legislative Council's Debate

In the Legislative Council's debate on the Green Paper, the inadequacy of the contributory sickness, injury and death benefit scheme was felt by most of the unofficial members. Miss Ko Siu Wah was dissatisfied with the limited scope of the scheme and pointed out that it was "far from being a coverage for old age." She suggested to raise the income ceiling from HK\$2,000 to HK\$4,000 and the contribution rate from 2 to 4 per cent of an employee's earnings so that the scheme could offer "more benefits to the insured and for as long as they are suffering from illness and injuries." The scheme might then consider a more adequate coverage for old age, either "in the form of pension or a lump sum payment." All in all, Miss Ko was certain that "social insurance (requiring contributions) is definitely the way in which we shall develop social security in future."³⁷

Rev. P.T. McGovern, another Legislative Councillor and Chairman of an Ad Hoc Group of Unofficial Members to study the Green Paper summed up the views of other members and said that "As a contributory scheme is a

new idea it was felt that it was only by introducing the scheme, at least on an experimental basis, that the public could experience for themselves the benefits involved and thus reach a decision." And as regards public reactions, the group found that in general "young workers were not particularly interested. For them a dollar in the hand is worth two in the future. It will need considerable publicity to convince them that by contributing to the scheme they could get more than double their money. Older workers with families showed some interest. Employers, especially small employers, were not enthusiastic." The question was therefore more complicated than simply designing an acceptable scheme. But Rev. McGovern added that "the scheme certainly need to be made more attractive," and predicted that, though only a personal opinion, "it might be easier to introduce a full Central Provident Fund."³⁸

Mr. James Wu, another Legislative Councillor and himself an industrialist, commenting on the proposed scheme, warned that "we exist today in a fiercely competitive world as far as our exports are concerned, and it would be unrealistic to think that employers, particularly industrialists, could provide more benefits funded by them alone by way of further statutory requirements. Clearly the burden would have to be loaded on to export prices which in turn would tend to dull our competitive edge resulting in loss of employment opportunities at home. Such would be counter-productive, and are in effect being demonstrated so in some industrial developed countries." He therefore warned of the dangers of providing too much social security for employees. But so far as the type

of benefits proposed in the Green Paper was concerned, Mr. Wu believed that industrial and employers' associations would agree in principle. But he described the "retirement" benefit proposed in the contributory scheme as a misnomer and feared that the scheme would not be commensurate with the relatively large administrative costs to be paid by the Government. He thought that private insurance institutions would probably offer better benefits with the same contribution rates.³⁹

Three other Legislative Councillors had also commented on the Green Paper and expressed their general acceptance of the suggestions. Mr. Cheong-Leen hoped that the small retirement benefit provided by the contributory scheme "can be the starting point for the expansion of the scheme at a later date into a monthly pension plan for those reaching the age of say 65."⁴⁰ In summary, the proposal for a contributory social security scheme had met with the general approval of the unofficial members, though reservations were expressed regarding some of the details, especially the inadequate provision for old age. Furthermore, it was felt that the feasibility of a contributory scheme should only be tested by its actual operation.

Even before the debate in the Legislative Council on the Green Paper, Mr. T.S. Heppell, the consultant invited from Britain to draw up the proposal, has been well aware of the limitations of the scheme. Reacting to some of the criticisms, he explained that the scheme was deliberately kept modest because it would be "a mistake to try to run

before we learn how to walk." Also, "It is far better to start off with something modest and build on it than to leap into something big and complicated from the start The fact that we are starting small does not mean we cannot go from here." He admitted that the reason for keeping the contribution rate so low was "we do not want to alarm an overseas investor who may have done his costings of a Hong Kong operation without reference to social security costs. He might over-react if he thought a large scale scheme with high contributions was suddenly being introduced which might scare him away." However, he added that "if the idea was popular and widely accepted the scheme could easily be adapted to provide more substantial retirement benefits. It would be a logical next step for the Government to take."⁴¹

So far, the views examined came mostly from associations or individuals whose positions were avowedly on the side of the employees. The general reaction of the employers was also favourable, though they were not very enthusiastic about the proposal. The Assistant Director of the General Chamber of Commerce, Mr. Harry Garlick, in a television programme discussing the Green Paper, pointed out that "better employers in Hong Kong were already providing better benefits than those envisaged in the scheme."⁴² Few employers or their associations had in fact openly commented on the proposal and both the Federation of Hong Kong Industries and the Chinese Manufacturers' Association of Hong Kong felt that there were insufficient details contained in the Green Paper for meaningful

comments. They preferred to reserve their opinions until more details were released.⁴³

Hong Kong Federation of Industries

The Joint Associations Committee on Employer/Employee Relations of the Hong Kong Federation of Industries in a letter to the Commissioner for Labour remarked that in principle they were "sympathetic to the principle there should be financial protection against sickness and death for all workers." They were opposed, however, to a voluntary scheme as it would be complicated and difficult to administer. As an alternative, the Committee suggested the possibility of incorporating the sickness benefits proposed in the contributory scheme into the Employment Ordinance with the cost borne solely by the employers. The Committee also suggested the inclusion of a death benefit in the scheme, giving survivors of an employee who dies before reaching 65 for causes other than accidents, "one month's salary for each year under 65." The Committee further stated that they would not support a provident fund scheme as employees were uncertain how they would be awarded "should China invoke the 1997 treaty date."

The Chinese Manufacturers' Association of Hong Kong

The Chinese Manufacturers' Association of Hong Kong did not find the idea of compulsory contribution to social insurance unacceptable to the people of Hong Kong. Regarding the proposal, the Association suggested the following for the Government's consideration:

1. The scheme should provide benefits to cover retirement, sickness, disability and discharge from the company.
2. The arrangement would be more acceptable if the contribution of an employee could be increased or decreased according to individual needs.
3. The scheme would be better accepted if the contribution of an employee could be exempted from salary tax.
4. It would be desirable if the political stability of Hong Kong could be ascertained before the launching of the scheme.
5. Publicity on the scheme would be necessary especially among workers in the low income group.
6. The effect of the scheme on the business of insurance companies should be looked into.
7. The cost of setting up the scheme would be high and Government subsidy at the initial phase might be necessary.
8. Contribution to social insurance might cause hardship among employees in the low earning group.
9. Inflation might erode the value of benefits received by employees.

In summary, both the Hong Kong Federation of Industries and the Chinese Manufacturers' Association of Hong Kong supported in principle the proposal for a contributory social security scheme and had not raised any serious question about its feasibility. They even thought that the scheme might be expanded though they were worried about the unknown political future of Hong Kong and its effect on a scheme that would only mature after many years.⁴⁴ The insistence of the Hong Kong Federation of Industries on compulsory membership is however noteworthy and it is not

incongruent with the opinion expressed in an Editorial of the South China Morning Post immediately after the publication of the Green Paper. The Editorial stated that "Our own view has been that the scheme should be compulsory rather than semi-voluntary. As it stands at present it is a take-it-or-leave-it plan which people can opt into or out of too easily, and this cannot be satisfactory." Furthermore, the editor believed that the majority of workers in Hong Kong were not "on the whole as insurance conscious as those in other communities" and so proposals devised "will need a lot of hard selling before a sizable number agree to adopt them."⁴⁵

The examination that has been made so far clearly indicates that the issue at stake is not so much the acceptance of contributory social security schemes but the kind of arrangements that would best suit the interests of employees in Hong Kong. It is probably ~~this~~ that has prevented a decision so far as Mr. Eric Ho, Secretary for Social Services, admitted in the Legislative Council that though the Government recognized the need for contributory schemes, it had not yet reached "a conclusion on the best way of doing so." He explained that "one of the major problems connected with introducing any form of contributory system will be the need to ensure that it is compatible with the existing schemes."⁴⁶ But the issue does not seem to centre around compatibility as contributory and non-contributory schemes are based on different principles and serving different purposes. The problem seems rather to lie in the difficulty of finding a scheme that would prove acceptable to both employers and employees. The Green Paper has attempted to provide an answer but the scheme put

forward has not been found satisfactory by all. However, employers and employees seem to concur on one point that if a contributory social security scheme is to be introduced in Hong Kong, it must be one worthy of the effort.

CHAPTER THREE

A MODIFIED SCHEME

It may be concluded from the last chapter that both employers and employees in Hong Kong agree on the desirability of contributory social security schemes. The problem is to construct a scheme that both would accept. Though the proposal for a sickness, injury and death benefit insurance scheme was not rejected, it has not been welcomed with open arms. To employers, the proposal is apparently difficult to administer, and they would even prefer to have the sickness benefits incorporated as part of their liability. To employees, the scheme appears too limited in scope and coverage as only a narrow range of risks is covered and the benefits are inadequate.

Based on the comments that have been variously expressed by employers and employees, it appears that a contributory social security scheme must include the following elements in order to gain acceptance.

Compulsory Membership: A semi-voluntary or a voluntary scheme faces the difficulty that the option of the employees can never be truly voluntary since they are bound to come under the influence of their employers, directly or indirectly. This is particularly so in Hong Kong as labour unionisation is weak and employees are generally lacking in bargaining power.⁴⁷ It is therefore not surprising that compulsory membership is advocated by the employees who believe that only a compulsory scheme can achieve the target of covering all who are in need

of income protection. A compulsory scheme is, however, supported by the employers for another reason that it would be simpler to administer and less confusing. In fact, the employers were given no choice under the proposal of the Green Paper since membership was at the discretion of the employees.

Provision for Old Age: It is clear that the provision for old age, either in the form of a central provident fund or a pensions scheme, is considered by both employers and employees as a desirable benefit. The uncertain political future of Hong Kong is always an obstacle to the introduction of schemes requiring lengthy periods to mature, and it is largely because of this that the Hong Kong Federation of Industries has opposed to the establishment of provident fund schemes. However, the need for financial support in old age is **great** and growing as more and more employees in Hong Kong are retiring and living longer lives; it seems absurd that a contributory social security scheme can leave this risk unattended to. Unofficial members who had commented on the Green Paper were particularly concerned about the lack of arrangements to provide assistance for the elderly.

Education about Insurance: Reactions of employers and employees indicate that the concept of social insurance is probably not understood by the public still, though they have responded favourably to the introduction of contributory social security schemes. Employees were dissatisfied with the meagre benefits provided and have argued for a more adequate

scheme. But this obviously could not be done without a more progressive element built into the proposal. In other words, the calculation of benefits must be tipped in favour of the employees in the low income group. This is, however, not the intention of the proposed sickness, injury and death benefit insurance scheme which has been constructed on the actuarial principle of financial equity; resources are pooled between employees facing various risks but not redistributed amongst those belonging to different income classes. The proposal is in nature more akin to a private insurance scheme than a welfare measure though it has come under a Green Paper on social welfare services. For this same reason the employees in the higher income brackets have no worry that the schemes would oblige them to help the less well-off. And the employers have no cause for alarm for so long as the scheme is based on financial equity, there is little opportunity for Hong Kong to be turned into a "Welfare State".⁴⁸ Public education about social insurance is necessary in order to eliminate the misconception that a contributory social security scheme is nothing but a welfare measure aimed at helping the poor. Social insurance is in actual practice a mechanism through which the risks of an employee are safeguarded by the joint effort of all employees and their employers; the redistribution of resources between income classes is only a marginal interest in the entire arrangement.⁴⁹

To recapitulate, a contributory social security scheme to be introduced in Hong Kong must have compulsory membership, and cover retirement. Public education about the nature of a contributory scheme

and what it can or cannot do is also essential. Based on the above observations, the contributory scheme proposed in the Green Paper would need modification to gain wider acceptance. First, a more adequate payment must be provided for death and retirement. Instead of making a choice between a central provident fund scheme and a pensions scheme, it is suggested that the contributory scheme might include a provision for death and retirement, payable either in the form of a lump sum or by instalments. The amount of payment, if given in a lump sum, should be no less than 30 months' earnings of an employee during his last 10 years' contribution, or by 48 instalments, with each instalment equal to $\frac{2}{3}$ of the average monthly earnings of an employee. A maximum and a minimum amount would have to be imposed but in order to qualify for the retirement and death benefits, an insured employee must have contributed for not less than 10 years. For each additional year of contribution, the amount of payment should be increased by one-tenth. In cases where an insured employee dies before having contributed for 10 years, his survivors would receive a payment as though the employee had already fulfilled the minimum contribution requirement. The retirement benefit would only be payable when an insured employee reaches 60 or else he has to prove that he is no longer able to enter into gainful employment. With this provision for retirement and death benefits, it is inevitable that the contribution rate would have to be increased accordingly. The actual rate will depend on actuarial considerations but the principle is to make the scheme self-sufficient with only the administrative cost covered by the Government.

The above is only to give some guidelines for the incorporation of a retirement and death benefit into the proposed scheme. Further details will have to be worked out when the expediency of such a provision is recognized and accepted.

Secondly, it seems desirable that a contributory social security scheme for Hong Kong should have a compulsory membership. All employees must be included with two exceptions. First, when employees are covered by similar or better arrangements, contracting out may then be allowed. Second, when employees are earning incomes below a certain level, they may apply for exemption. The exclusion of this group of employees is essential as their basic problem is not income protection but poverty. To help the poor, other methods such as the provision of adequate public assistance or even some self-help projects have been found to be more effective than contributory schemes. Apart from the above two categories, the rest of the employees should be required to contribute. Nevertheless, the scheme may begin with employees in establishments employing 20 workers or more in order to gain the necessary experience of administering a contributory social security scheme.⁵⁰ But a time-table should be worked out for the scheme to be expanded to cover all employees, even those who are self-employed.

It must be admitted that a contributory scheme affecting a large proportion of the population is never easy to administer. Experience has to be acquired and the necessary administrative structure built up from

scratch. But the further it is delayed, the more difficult it would be to begin a contributory scheme. If a contributory scheme, even on a very limited scale, had been established following the report of the Inter-departmental Working Party on Social Security in 1967, Hong Kong would now have a much easier task ahead. There is no doubt that a contributory social security scheme has been delayed for too long in Hong Kong and it is a matter of urgency to introduce one now.

A major question raised by the Government regarding the introduction of contributory schemes is how to ensure its compatibility with existing social security measures. There is really little cause for concern for though contributory and non-contributory schemes often come together to form an integrated system, the two primarily aim at different target groups and serve different purposes. Public assistance and the other provisions for the elderly presently provided by the Government are not and can never be a substitute for the retirement payments offered by a contributory scheme. Furthermore, it would be extremely undesirable to use public assistance as the main stay of income protection for those who have retired. The nature of the old age allowance as a universal benefit also dispels any hope that it can ever take the place of pensions based on contributions.⁵¹ As more and more of our employees reach retirement age, their livelihood is rapidly becoming one of the most acute social problems in Hong Kong.

CONCLUSION

The interest of this paper is to answer the question of the feasibility of contributory social security schemes in Hong Kong. The reactions of the employers and employees towards the sickness, injury and death benefit scheme proposed in a Green Paper on social security development are used as a basis for examination. It is found that there is generally no great opposition against the concept of contribution and the problem seems to be in the difficulty of devising a scheme that would be acceptable to both the employers and the employees.

The common comment from both the employers and employees on the proposed scheme is that it is too limited in scope and coverage. It is therefore not the kind of income protection scheme that Hong Kong needs. The most obvious omission of the proposal is the exclusion of an adequate provision for old age and the reason for this is no other than the wish to keep the contribution rate as low as possible. But then the scheme is not worthy of introduction; the relatively high administrative cost will also make it unacceptable. The suggestion to leave the decision of whether to become members to the employees is another severely criticised area as it is open to a lot of abuse and loopholes. Both the employers and employees prefer a compulsory membership though with certain qualifications. The examination also reveals that there is a general lack of understanding about the principles of social insurance; there is subsequently an unrealistic

hope regarding the functions of a contributory social security scheme and what it can achieve.

Based on the findings of the examination and other general principles of the operation of contributory social security schemes, a few suggestions are made to modify the scheme proposed in the Green Paper, namely to include a provision for old age and to make membership compulsory. It is also argued that such a contributory scheme, rather than duplicating the functions of the existing social security provisions, will serve a very definite purpose of meeting the income security needs of the employees in Hong Kong.

Footnotes

1. Social Security Administration, U.S. Department of Health, Education, and Welfare, Social Security Programs Throughout The World 1977, Research Report No. 50, U.S. Government Printing Office, Washington D.C., 1978, p. x.
2. Of the 129 countries covered by the social security survey, 114 had schemes covering old age, invalidity and survivors, 38 covering unemployment and 65 providing family allowances. Ibid.
3. For a discussion on the classification of social security schemes in different countries, see Barbara N. Rodgers, John Greve, and John S. Morgan, Comparative Social Administration, Allen and Unwin, London, 1971, pp. 234-261.
4. In its survey on the cost of social security in countries throughout the world, the International Labour Office categorised social security receipts as coming from two main sources: one from contributions of insured persons and employers, and the other from special taxes allocated to social security, state participation, participation of other public authorities and income from capital. International Labour Office, The Cost of Social Security 1967-1971, eighth international inquiry, International Labour Office, Geneva, 1976.
5. For a discussion on the limitations of employers' liability schemes, see Kenneth Thompson, "Effectiveness and shortcomings of various types of social security measures adopted by developing countries in Asia" in Report on the ILO/NOROD Asian Regional Seminar on Social Security, National Economy and Planning, International Labour Office, Geneva, 1975, pp. 64-72.
6. Some may not subscribe to this view and argue that social security should be planned in the light of social imperatives rather than economic constraints. Vladimir Rys said, "..... for only if social aspects of development are determined in the light of social imperatives and not of economic constraints, will it be possible to change present (social security) planning practice and approach the task with greater realism." Vladimir Rys, "Problems of social security planning in industrialized and developing countries", International Social Security Review, Nos. 2-3, 1974, p. 326. However, there is a general consensus that the level of economic development and the degree of social security provisions in a society are closely related. See articles in International Social Security Association, Social Security and National Economy, Studies and Research No. 1, ISSA, Geneva, 1970.

7. See Adrian L. Webb and Jack E. B. Sieve, Income Redistribution and the Welfare State, Bell and Sons, London, 1971.
8. The 1965 White Paper on social welfare stated: "There are many religious and welfare organizations in Hong Kong, often with substantial resources, which are willing and able to provide welfare services, some of which in other countries would be provided by the public authorities." Hong Kong Government, Aims and Policy for Social Welfare in Hong Kong, Government Printer, Hong Kong, 1965.
9. Overseas donation accounted for 44 per cent of the total source of income of voluntary agencies in 1967-68 but it rapidly dwindled to 15 per cent in 1973-74. See C.K. Cheng, A Survey of Income Sources (in 1973-74) of the Member Organizations of the Hong Kong Council of Social Service, Research Department, The Hong Kong Council of Social Service, Hong Kong, 1975.
10. For an explanation on the introduction and operation of the Disability and Infirmity Allowance Scheme, see T.S. Heppell, "Social security and social welfare; a 'new look' from Hong Kong (Part Two)", Journal of Social Policy, Vol. 3, No. 2 (April 1974), pp. 113-126.
11. The estimated expenditure on social security in 1979-80 was HK\$405 million while the total provision for social welfare was HK\$680 million. See Financial Secretary, The 1979-80 Budget Speech, Government Printer, Hong Kong, 1979, Annex (8)E. Expenditure on social security thus represented 66 per cent of the total budget for social welfare.
12. The total Government expenditure in 1979-80 was estimated at HK\$12,454 million.
13. Two sets of indices are used by the Labour Department to measure the changes in wages earned by workers in industries and services, one excluding and the other including fringe benefits. Fringe benefits are divided into three categories: (i) cash benefits such as new year bonuses, good attendance and efficiency bonuses, and other cash allowances; (ii) free or subsidized food or food allowance; free or subsidized accommodation; (iii) paid holidays. These benefits are given at the discretion of individual employers, without uniformity even between manufacturers of the same industry.
14. Mary Lee wrote: "Many manufacturers have complained about the new labour laws which provide for paid annual leave and impose safety regulations. Such government interference, however, is little more than public relations since there are not enough inspectors to enforce the laws." Mary Lee, "You can't control what you do not pay for," Far Eastern Economic Review, March 30, 1979, p. 35.

15. "Worker protection against various risks is also accomplished in some countries through laws usually labour codes, which require all employers affected to provide specified payments or services directly to their employees subject to a particular risk This approach does not involve any pooling of risks, since the liability for payments is placed directly on each employer Most of the employer-liability laws have by now been largely superseded by social insurance, except perhaps in the case of work-injury protection." Social Security Programs Throughout the World 1977, op. cit., pp. ix-x.
16. Hong Kong Government, Report for the Year 1965, Government Printer, Hong Kong, 1966, p. 140.
17. Report of an Inter-departmental Working Party to Consider Certain Aspects of Social Security, Government Printer, Hong Kong, 1967.
18. Ibid., p. 92.
19. Hong Kong Hansard, Session 1968, Government Printer, Hong Kong, 1968, pp. 234-236.
20. Hong Kong Government, Social Welfare in Hong Kong: The Way Ahead, Government Printer, Hong Kong, 1973, p. 21.
21. See Nelson W.S. Chow, "The feasibility of social insurance for Hong Kong", The Hong Kong Journal of Social Work, Vol. IX, No. 1 (Summer 1974), pp. 12-17.
22. Hong Kong Government, Help for These Least Able to Help Themselves: A Programme of Social Security Development, Government Printer, Hong Kong, 1977, paragraph 8.5.
23. Hong Kong Government, Social Welfare into the 1980's, Government Printer, Hong Kong, 1979. It stated: "Whilst the Government accepts the desirability of the coverage (for sickness, injury and death), it has not yet reached a conclusion on what the best method of proceeding would be - given the wide measure of cover for the lower income groups already provided by the Public Assistance and Special Needs Allowance Scheme, and by statutory occupational benefits." Paragraph 3.21.
24. For a discussion on the relationship between industrialization and the family structure in Hong Kong, see Fai-ming Wong, "Industrialization and the Family Structure in Hong Kong", Journal of Marriage and the Family, Vol. 37, No. 4 (November 1975), pp. 985-1000.

25. There is a growing interest in life insurance in Hong Kong, Margaret Shellam wrote: "Traditionally, many Chinese in Hong Kong considered life insurance to be unlucky. Now, with a more mobile family structure, more people are looking on life insurance as a sensible precaution and it is growing in importance." Margaret Shellam, "Unregulated, ununused funds", Far Eastern Economic Review, July 29, 1977, p. 71.
26. Commissioner for Census and Statistics, Hong Kong By-Census 1976 (Basic Tables), Census and Statistics Department, Hong Kong, 1977, Table 8.
27. For example, a worker suffering from permanent total incapacity will only be compensated a maximum of HK\$80,000.
28. In a survey conducted by the Hong Kong Christian Industrial Committee on the acceptance of social insurance, the term had first to be explained before respondents were asked to give their opinions. Even so, respondents had difficulties in comprehending the concept. Hong Kong Christian Industrial Committee, Social Security Report, mimeograph, Hong Kong, May 1977.
29. A Programme of Social Security Development, op. cit., p. 27.
30. Ibid.
31. Hong Kong Christian Industrial Committee, op. cit. The survey was conducted within October to December 1976. Since workers interviewed were not systematically selected, they spoke only for themselves.
32. Ibid., p. 7.
33. Hong Kong Christian Industrial Committee, A Statement on Green Paper on "A Programme of Social Security Development", mimeograph, January 1978, 4 pages.
34. 職工青年中心聯合委員會, 對社會保障計劃綠皮書中僱員傷病人壽保險之意見. 油印本, 共四頁。
35. The Hong Kong Council of Social Service, Comments on Proposals of the Green Paper on a Programme of Social Security Development to be implemented between April 1978 and end of 1980, mimeograph, February 1978, 3 pages.
36. Hong Kong Social Workers' Association, Comments on Proposals of Green Paper on a Programme of Social Security Development, mimeograph, undated, 2 pages.

37. Hong Kong Hansard, Sessions 1977/78, Government Printer, Hong Kong, 1978. Miss Ko's speech was recorded in pp. 876-879.
38. Ibid., pp. 865-869.
39. Ibid., pp. 869-871.
40. Ibid., pp. 871-874.
41. "Benefit plan defended", South China Morning Post, November 16, 1977.
42. "Security scheme may become compulsory", South China Morning Post, November 21, 1977.
43. In connection with the present study, a number of employers' associations have been approached for their comments on the proposal of the Green Paper for a sickness, injury and death benefit insurance scheme. Only the Federation of Hong Kong Industries and the Chinese Manufacturers' Association responded while others either replied that they have not seriously considered the proposal or said they were not competent to make any meaningful comments.
44. The unknown political factor is not an insurmountable obstacle and one of the suggestions is for Hong Kong to have some kind of understanding with China regarding its "social" investments which include contributions to a social insurance scheme. See Tony Ngan, "Why a contributory scheme is essential: The need to provide for workers' future", Hong Kong Standard, May 10, 1979.
45. "Take-it-or-leave-it social insurance", South China Morning Post, November 17, 1977.
46. Mr. Eric Ho revealed this in his reply to the questions of the Unofficial Members during the 1979/80 Budget debate.
47. At the end of 1978, there were only 327 registered employee trade unions with an estimated membership of 407,400. Most trade unions are also inactive.
48. The "Welfare State" ideology means more than just the introduction of contributory social security schemes, though some have equated the two. See Richard Titmuss, Essays on the "Welfare State", Allen and Unwin, London, 1963.
49. For a thorough discussion on the planning of social security and its functions in a contemporary society, see Vladimir Rys, "Social security and social planning in contemporary society", in The Planning of Social Security, International Social Security Association, Geneva, 1971, pp. 15-60.

50. This has been the experience of Malaysia when it introduced the Employment Injury Insurance Scheme in 1971 to replace the Workmen's Compensation Ordinance. Establishments employing less than four employees were excluded as were those employed in farming, fishing, etc.
51. Hong Kong has now about 400,000 persons of its population aged 60 and above. An old age allowance granted to them all, even at the present rate of HK\$100 a month, would cost the Government HK\$480 million a year.