China Perspectives

2014/1 | 2014
Post-1997 Hong Kong
Special Feature

The New Paradox of Thrift

Financialisation, retirement protection, and income polarisation in Hong Kong

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p. 15-24
https://doi.org/10.4000/chinaperspectives.6363

Abstract

The Hong Kong SAR government has always been proud of the fact that Hong Kong retains its top ranking in terms of "market freedom" according to most international rating agencies and think tanks. What the government has been much more reluctant to recognise is that, more than 15 years after the handover, Hong Kong now also tops other developed economies in terms of income inequality. The growing inequality is caused, among other things, by worsening poverty among the aged. This paper attempts to provide an updated analysis of income and wealth polarisation in Hong Kong, with a particular focus on the retirement protection policy and old-age poverty. It will examine the polarising effects of the financialisation of the Hong Kong economy.

Index terms

Index by keyword: financialisation, asset-based welfare, income polarisation, pension fund capitalism,
…n, old-age poverty

…o attribute income polarisation in Hong Kong to the economic …pecially the deskilling of middle-aged workers. While important, … of financialisation, especially its impact on social protection. …nomenon, and appreciation of this factor in the Hong Kong …why several policy initiatives, such as the Mandatory Provident …ew "paradox of thrift": encouraging more saving and investment … led to worse prospects for the lower class.[1] This article intends

… follows. First, we will review the current literature about …pitalism, and asset-based welfare. Then, drawing from various … demonstrate how financialisation transforms and shapes the …nd social polarisation. In particular, we will look at the impact of …ng and retirement protection in Hong Kong. Different as they would seem, we will show that government policies in both policy areas can be understood by the same logic of financialisation. We will conclude with an overall evaluation of the effects of financialisation on inequality, especially poverty among the elderly. It will be argued that there is a dire need for social welfare reform, especially in the pension system, to deal with the current polarisation.

Financialisation and pension fund capitalism

3 Capitalism has transformed itself in successive stages with different institutional characteristics. The economic stagnation in the 1970s, the rise of neoliberalism and the processes of globalisation in the 1980s demonstrated the failure of Fordism and signified transition to a new form of capitalism. In particular, scholars have focused on the phenomenon of financialisation, especially since the Global Financial Crisis. The idea of financialisation cuts across different disciplines and approaches, each with its own emphasis. However, all point to the importance of finance in contemporary capitalism and its adverse consequences, especially for the poor and disadvantaged groups. In this paper, financialisation is defined as "the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of the domestic and international economies."[2] It is manifested in "the greater autonomy of the financial sector, the proliferation of financial institutions and instruments, and the integration of a broad range of economic actors in financial markets."[3] This new phase of capitalism has been known variously as finance-led growth regime, money-manager capitalism, or simply financialised capitalism.

4 In an increasingly financialised world, banks are no longer the main players in finance. Corporations that traditionally reinvest either through internal retained earnings or bank loans can now raise funds via new financial channels: stock markets and the so-called institutional investors, comprised of investment banks, pension funds, mutual funds, hedge funds, and structured investment vehicles. Their interests are in dividends and capital gains rather than in the operation of corporations,[4] thus transforming the corporate world by re-setting profitability norms to evaluate firms through the shareholder value movement.[5] In order to attract institutional investors, firms employ short-term strategies of manipulating low-debt balance sheet to avoid financing long-term production projects.[6] Meanwhile, there is a shift away from traditional management methods that stabilise industrial relations, such as long-term employment and collective bargaining, to flexible management and outsourcing that is believed to enhance efficiency and productivity. As a result, the labour market is destabilised, wages are depressed, and workers face higher economic insecurity and wage stagnation. Job insecurity and wage stagnation not only imply worsening living conditions for workers, but also dampen aggregate demand.

5 Especially noteworthy among the institutional investors are pension funds, whose influence on nation-states and the global economy has been so significant that some have described it as "pension fund capitalism."[7] The changes from defined benefit (DB) to defined contribution (DC) plans[8] in the pension system in the 1970s helped to transform corporate governance into a system dominated by shareholder's interests.[9] In DB plans, employers shoulder the
ability of the funds, but in DC plans, the responsibility is shifted
also found that their DB plans accumulated more assets than
therefore terminated the DB plans to turn the excess assets into
the private pension landscape is a key factor behind the rise of
ed economies.[11] The boom in private pension funds has fuelled
cialisation.
bit a lifecycle in which large inflows of contributions from
ginning, but the situation reverses in the mature period, when
gher than inflow contributions. Unless the economy is growing
ment is rising, pension schemes typically mature in 20 to 30
ion schemes approach maturity simultaneously, there is a risk
opportunities, fund managers will be forced to sell their assets
excess outflow from the markets, asset prices inevitably fall and
even lead to system-wide financial crisis. To avoid this, many
new cash inflows through financial innovations or directing
The "solution" is to financialise, in principle, everything from
extracted and turned into financial assets. The most important
property.

Welfare financialisation and the social investment state

7 Concomitant with the trend of financialisation is the discourse on asset-based welfare in social policy, which advocates turning the welfare state into a social investment state.[13] Its basic assumption is that people are well placed to utilise their assets and exercise choice in the pursuit of their livelihoods because they have the necessary skills and information to benefit from their asset building.[14] Although the idea of the social investment state focuses on human and social capital and encouraging savings to meet future life course risks, it has been extended by the neoliberal state to the realm of property and financial assets, strategically promoting the finance-led growth regime. For instance, Jacob Hacker described attempts by the American state to privatise state-sponsored social insurance as the "great risk shift": the shift of responsibility for managing economic risk from the government and employers to individuals and their families.[15] Through the gradual dismantling of the social protection system by cutting public social services and privatising social insurance systems, individuals and households are required to insure against their life-course risks by turning to private insurers and financial markets for economic security.

8 Besides turning social insurance entitlements into private investments, neoliberal states actively privatise public service provisions to boost further financialisation. According to Andrew Leyshon and Nigel Thrift, the main characteristic of finance capitalism is the constant searching out or constructing of new assets that can yield a predictable income stream. The assets can then either be used as collateral for borrowing new capital to finance investment or speculating in riskier assets, or be securitised to found a financial base for further speculation.[16] Privatised social welfare and service provisions, notably pensions, housing, and medical services, become important targets for financialisation because of their predictable income streams. Indeed, "any form of privatisation has the potential to induce financialisation since it creates a stream of revenue that can be consolidated into assets that can become part of a derivative that is speculatively traded."[17]

9 In brief, the advance of asset-based welfare or welfare financialisation has led people to rely not on the state but on investments in financial products and property to protect themselves from life contingencies. Nonetheless, ordinary people are not professional investors who are competent to accumulate sufficient wealth. Hence, neoliberal governments have promoted the education of financial literacy to instil an investor identity in the entire population.[18] Furthermore, when traditional banking loses its profitability, commercial banks also aggressively engage in financial activities. With the abolition of the 1933 Glass-Steagall Act in the US, commercial banks operate like investment banks and promote various financial investments to their clients through their extensive retailing networks and electronic banking systems. As a result, ordinary people have more convenient ways to engage in various financial activities.

10 In a financialised economy, financial transactions dominate economic exchanges. Financialisation has changed the behaviour and priority of ordinary people, including welfare recipients. Moreover, asset building and wealth creation have been so infused into the popular culture that ordinary people have become obsessed with improving their lives through financial

…s culture of financialisation is established through corporate

…0 As financialisation, through neoliberal state and mass media,

…people about individual responsibility of building assets and

… or familial risks, it has tremendous implications for changes in

…ine through the case of Hong Kong.

…ation of the Hong Kong

…nternational financial centre. According to the Global Financial

…w ranked number three, just behind London and New York, in

…ver, before the 1980s, the Hong Kong economy was driven by

… (finance, insurance, and real estate). Since China adopted its

…as experienced deindustrialisation and economic restructuring.

…and policymakers intentionally or unintentionally transformed

… economy.

12 In this section, we attempt to show the extent of Hong Kong's financialisation by examining its FIRE sectors. From Table 1, we can see that trading is still the single most important sector contributing to the Hong Kong economy. However, the FIRE sectors, taken as a whole, have become the engine of growth and contribute to around one third of Hong Kong's GDP. Right before the Global Financial Crisis, FIRE reached its peak in 2007, constituting 37.0% of GDP. Alan Smart and James Lee note that real estate plays a more significant role than the finance and insurance sectors in propelling growth in HK's financialised economy.[22] Jean Jaulin and Jean-François Huchet argue that a property-led growth model has taken place since the mid-1980s.[23] Haila describes the Hong Kong state as a property state that relies on property to generate government revenue, supplement other financial markets (as property is a highly leveraged financial asset), and stimulate economic growth. It also gives rise to a group of powerful developers, who deploy their land profits to telecommunication and other businesses to foster an informational Hong Kong economy.[24]

Table 1 – Gross Domestic Product (GDP) by selected economic activity - percentage contribution to GDP at basic prices (2000-2011)

Economic Activity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Construction	4.9	4.5	4.1	3.7	3.2	2.8	2.7	2.5	3.0	3.2	3.3	3.4
Import/export, wholesale, and retail trades	21.6	22.2	22.8	23.6	25.0	26.1	24.9	23.6	24.6	23.4	23.8	25.9
Financing and insurance	12.8	12.1	12.3	13.3	13.1	13.8	16.7	20.1	17.1	16.2	16.4	16.1
Real estate	5.0	4.6	4.3	4.0	4.1	4.4	4.3	4.5	5.2	5.5	5.1	5.6
Ownership of premises	10.8	11.3	11.2	10.7	9.8	10.1	10.3	9.9	11.0	11.5	10.6	10.2
FIRE*	33.5	32.5	31.9	31.7	30.2	31.1	34.0	37.0	36.3	36.4	35.4	35.3
Construction, real estate and ownership of premises	20.7	20.4	19.6	18.4	17.1	17.3	17.3	16.9	19.2	20.2	19.0	19.2

* FIRE includes construction, financing and insurance, real estate, and ownership of premises.

Source: Census and Statistics Department, www.censtatd.gov.hk/hkstat/sub/sp250.jsp (accessed on 5 February 2014).

13 Although the FIRE sectors contribute heavily to GDP, their employment impact is relatively small. Table 2 shows that they employ around 17% of the total workforce. If construction is excluded, the employment rate is just about 9%. The biggest sectors are trading, public administration, and social and personal services, which together employ approximately half of the total workforce. Thus, the growth of FIRE does not directly contribute much to employment, but it contributes indirectly by increasing government revenue and stimulating household

cts.

estimates by selected industries, 2000 to 2011

2003	2004	2005	2006	2007	2008	2009	2010	2011
261 400 (8.2%)	263 000 (8.0%)	264 300 (7.9%)	270 800 (7.9%)	275 200 (7.9%)	265 900 (7.6%)	261 200 (7.5%)	261 500 (7.5%)	271 900 (7.6%)
833 900 (26.1%)	868 000 (26.5%)	899 400 (26.9%)	908 900 (26.6%)	916 800 (26.3%)	909 800 (25.9%)	881 000 (25.4%)	884 900 (25.4%)	888 200 (24.8%)
167 900 (5.2%)	169 400 (5.2%)	179 400 (5.4%)	186 000 (5.4%)	192 700 (5.5%)	206 100 (5.9%)	211 400 (6.1%)	216 700 (6.2%)	226 300 (6.3%)
94 800 (3.0%)	94 900 (2.9%)	101 800 (3.0%)	106 800 (3.1%)	110 100 (3.2%)	116 200 (3.3%)	113 600 (3.3%)	115 000 (3.3%)	122 100 (3.4%)
773 500 (24.2%)	785 700 (24.0%)	792 500 (23.7%)	812 300 (23.8%)	835 700 (24.0%)	847 500 (24.1%)	869 600 (25.1%)	873 700 (25.1%)	916 000 (25.6%)
3 200 500	3 279 100	3 343 000	3 412 100	3 480 500	3 509 800	3 470 300	3 478 600	3 579 500

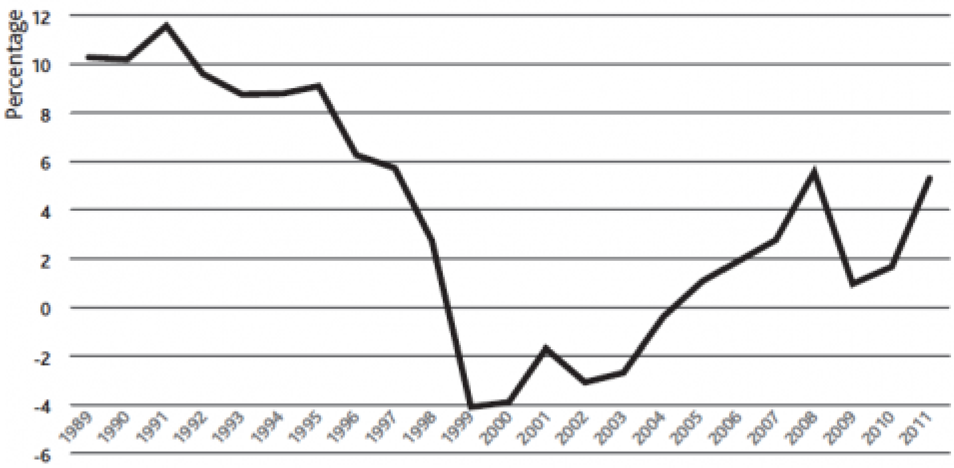
es, Census and Statistics Department, various years.

t booms before the handover were induced by the high inflation
with low nominal interest rates, which made the real interest
prices rose, a positive feedback loop occurred because of the

intrinsic animal spirits, à la Keynes, of human nature: people had strong incentive to use their savings and borrow from banks to invest or most likely speculate in the real estate and stock markets. The property and stock market euphoria drove people from, in Minskian terms, hedge to speculative or even Ponzi financial positions.[25] The 1997 Asian financial crisis and the SARS outbreak made a lot of people bankrupt and turned people's property into negative equity. Nonetheless, the gradual liberalisation and development of China's capital markets due to its accession to the World Trade Organisation resurrected Hong Kong's financial markets and then its real estate.

15 The stock and property markets picked up momentum from 2004-2005 onwards. There was a setback during the Global Financial Crisis, but the Hong Kong economy was not fatally hurt because Hongkongers had learnt much from the 1997 crisis. The financial markets have not yet returned to their heyday before the global financial turmoil. Daily trading values are lower because most share prices have been depreciated considerably. Although daily trading volumes have returned to former levels, the volatility is greater. However, the property market is booming again (see Graphs 2 to 4) due to quantitative easing in the US, the European Union, and Japan, the fiscal expansion of China, super-low interest rates, and a rising inflation rate (see Graph 1).

Graph 1 – Annual rates of change in the composite consumer price indexes, 1989-2011



Source: Annual Report on the Consumer Price Index, Census and Statistics Department, various years.

The financialisation of public housing

16 The Hong Kong state plays a substantial role in financialising the economy. On the one hand, it has been creating an investment environment responsive to the interests of finance and property. On the other hand, as Boyer argues, the state's role in a finance-led economy is to stabilise the FIRE sectors and avoid building asset bubbles. Hence, the state is inevitably forced at times to counteract FIRE interests so as to maintain legitimacy and social stability. The risk of overheating in the property and stock markets has been a concern of the government and the Hong Kong Monetary Authority since the global financial catastrophe. Since stock and property
income sources and profitable investment opportunities for all
amatic downturn of the markets would immediately translate
ocially disruptive issue and seriously affect the governability of

losing, 1986-2012

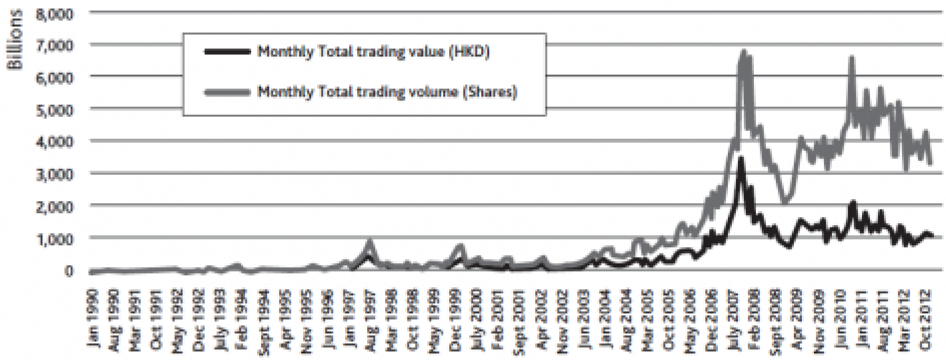
Source: Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk/eng/stat/smstat/statarch/statarchive.htm (accessed on 5 February 2014).

17 Public housing, a hallmark of Hong Kong social welfare, is a case in point. As a productivist welfare regime, Hong Kong has always subsumed social policy under the growth imperative.[26] Employing neoliberal rhetoric, the state emphasises "welfare just for the poor and needy" and privatises welfare, allowing capitalists to expropriate lower classes of their social rights. As early as the late 1970s, for example, the government started to launch various subsidised home ownership schemes. Despite its noble objective of providing affordable quality housing, some suggest the underlying reason was that the private property markets failed to respond to the housing needs of the emerging new middle classes.[27] In order to bridge the exchange-value-based property markets and the use-value-based public rental housing, the government inserted the subsidised schemes to create a housing ladder for the middle classes to enter the private markets. Moreover, the schemes also provided Housing Authority funds to finance public rental housing. The strategic use of subsidised homeownership to stabilise housing markets is well illustrated by the SAR government. Right after the handover, Chief Executive C. H. Tung attempted to cool down the housing bubble with the now infamous "85,000" housing programme. However, the Asian financial turmoil and the SARS crisis completely destroyed his plan. Under tremendous pressure from land developers, Tung abandoned subsidised homeownership to support the private markets.[28] Now, with the danger of another housing bubble amidst complaints over high rental and housing prices, the new Chief Executive, C.Y. Leung, has recommenced the schemes.

18 With regard to public rental housing, the government has launched a series of measures to make sure that housing is not a right but a commodity. For instance, in 2007, the government introduced a new public housing rental mechanism to replace the previous statutory 10% median rent-to-income ratio cap. The new mechanism allows flexible rent adjustments according to changes in tenants' household income.[29] The measure was formulated after the government halted the subsidised homeownership schemes. Once the schemes stopped, the Housing Authority, as a financially independent statutory body, was confronted with funding problems to erect more housing to satisfy the housing needs of the poor. Thus, the new mechanism was proposed to drain resources from existing tenants to provide housing for the needy on the

financialising property is the setup of the Link REIT (Link
eal estate investment trust (REIT) listed in Hong Kong. It is also
the Link was supposed to deal with the funding problems of the
000s. The Authority sold its retail and car-parking facilities in
stment trust, which would then be securitised and listed in the
lication of the earlier success in 2000 of the partial privatisation
ich is not only a transportation company, but also a real estate
s and politicians criticised the divestment, and a 67-year-old
icial review to challenge the initial public offering (IPO) on the
ould seriously affect the livelihood of public housing residents.
the Authority sold the facilities to the Link at such a low price
g the shareholders.[30] Although the IPO was delayed, the Link
is now controlled and managed by institutional investors. Once
ogic of shareholder rather than stakeholder values, rents were
sidents had to pay higher prices for products and services sold in
y the Link. The share price of the Link rose from its IPO price of
ice of HK$ 45.4 on 15 May 2013.[31]

Graph 3 – Hang Seng Index monthly trading volume and value, 1990-2012



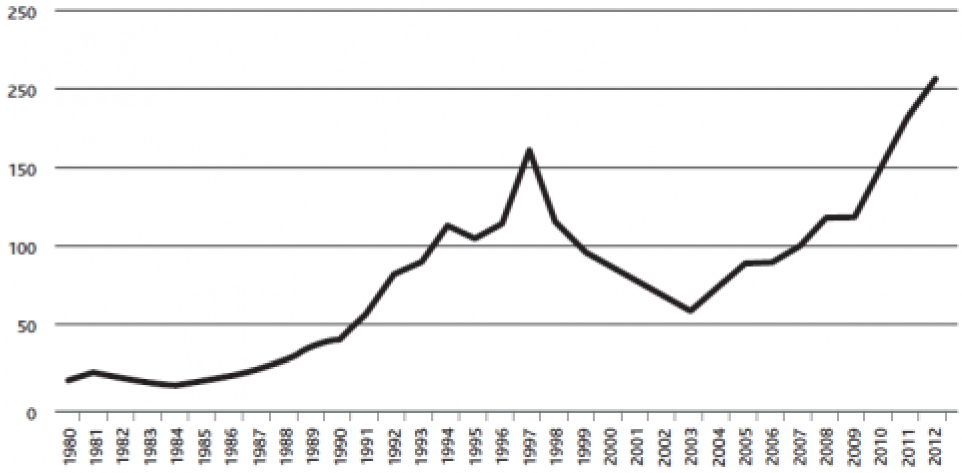
Source: Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk/eng/stat/smstat/statarch/statarchive.htm (accessed on 5 February 2014).

The financialisation of retirement protection

20 Although public pensions have existed for a long time in Western countries, Hong Kong has debated setting up some form of retirement protection since the 1960s. As early as 1966, the colonial government embarked on a study of the feasibility of establishing a Central Provident Fund (CPF) in Hong Kong. The same issue was debated in the mid-1970s, late-1980s, and 1991, but as in 1966, all were rejected by the conservative business sector due to additional labour costs.[32] Moreover, the government did not favour it because "the volume of funds that would be under centralized control for investment purposes might have a major unsettling effect on the financial, monetary and foreign exchange markets."[33] After rejecting the CPF in 1991, the colonial government proposed a compulsory Retirement Protection Scheme (RPS), similar to the Mandatory Provident Fund (MPF) scheme implemented in 2000. It failed to materialise because the government refused to provide funding to guarantee a minimum benefit level.[34] In 1993, with the support of the last governor, Chris Patten, the government proposed a compulsory contributory Old Age Pension Scheme (OPS) that would provide a flat-rate monthly pension for all eligible elderly. Nonetheless, under strong opposition from the business sectors, together with pressure from Beijing, Patten abandoned the OPS and opted for the MPF.[35]

21 The direct implication of the implementation of MPF is the sudden inflow of money into the financial markets. From its inception in 2000 to the end of 2010, a total net amount of HK$ 277.52 billion was contributed to the MPF System.[36] According to a consultancy report,[37] the MPF has a fund expense ratio (FER) amounting to 1.74% of the assets under management from 1 July 2010 to 30 June 2011, higher than those of Australia, Chile, Mexico, and the U.S. Although FER can be regarded generally as "management fees," according to the report, FER consists of management fees (charges for managing MPF funds), administrative costs, and others. Management fees amounted to 0.59%, while others, including trustee profit, member rebates, sponsor charges, and other costs, added up to 0.40%. Setting aside these items, the report attributes high FER to high administrative cost of 0.75%. Nonetheless, the report admitted that "trustees must delegate the investment management function to investment ... administration function to other parties." Thus, there "may be a ... ng charged for such delegated functions."[38] Overall, the report ... driven down as the MPF grew bigger, having a limited number ... ising administration, and using electronic solutions.[39] However, ... op five and ten trustees had managed 77% and 95% of all MPF ... period.[40] The figures simply indicate that the MPF is a highly ... wonder why the government did not establish a centralised ... administrative costs. As Chan points out, "It is only the MPF ... sic and traditional principles: pursuing a low tax regime and ... ent," and "the MPF helps strengthen Hong Kong's financial

... property price indices in all classes (territory-wide), 1980-2012



Source: Rating and Valuation Department, www.rvd.gov.hk/en/property_market_statistics/index.html (accessed on 5 February 2014).

Turning Hongkongers into investors

22 Alan Smart and James Lee[42] argue that the financialisation of Hong Kong mainly depends on real estate. They are certainly right. But as property prices rise tremendously, not many Hongkongers can afford the massive down payments. Moreover, the Asian financial crisis taught investors a hard lesson. Although the government devised a number of measures to support the property markets, investors were still very cautious. The government needed another asset market to generate wealth so as to propel growth because the original plan of re-industrialising Hong Kong failed. The stock market is one of the targets.

23 According to the Stock Market Retail Investor Surveys,[43] only 9% of Hong Kong adults (over 18) were stock investors who engaged in stock trading in the 12 months preceding the survey in 1992. The corresponding figure rose to 16% in 1997. The Asian financial crisis did not deter people from investing in stocks. In 2000, the figure increased to 21%. In the 2001 Survey, the HKEx introduced the notion "retail investors" who were either stock investors or derivatives investors or both. About 20.6% of Hong Kong adults were retail investors at that time. The retail investor figure dropped to 17.5% in 2003, but rebounded to 24.6% in 2004 and kept rising to a high of 35.8% in late 2007 and early 2008. The figure received a minor setback and decreased slightly to 35.1% in 2009. According to the most recent survey, the figure jumped back to 35.8%, comprising 2,154,000 individuals, in 2011.

24 The government plays an important role in turning Hongkongers into stock investors in several ways. To pursue finance-led growth, a significant portion of people have to benefit from asset price appreciation so that wealth effects can sustain a consumption level that generates sufficiently large aggregate demand to stimulate economic growth. Nevertheless, capital market inflation requires an inflow of cash or high liquidity of existing capital stocks to sustain the appreciation. In order to draw inflows of money into asset markets, as mentioned before, the assets and set up a privately managed MPF. As the 2001 Survey 0,000 new stock investors, over half entered the Hong Kong g to shares of large-scale IPOs such as MTR (53%) and buying nother one is the IPO of the Link, in which the retail investors re-launch of the Link was nearly 18 times over-subscribed by , at the end of March 2013, around 59% and 36% of total assets d in Hong Kong equities respectively.[46] The government also onds) to activate the underdeveloped bond market in 2011. In l Secretary John Tsang stated, "I believe that this will help anding of the bond market and increase their interest in bond

n and economic inequality

gkongers could attain economic security through hard work nent support. Hard work is no doubt still important, but its wer strata is now largely reduced by labour markets filled with precarious employment. As Hong Kong has experienced deindustrialisation and developed itself into a global city dominated by finance and producers' services, labour markets have destabilised and income inequality has increased.[48] Under the flexible labour markets driven by financialisation, many low-skilled workers have nonstandard employment that is low-paid and insecure. In a way, quite a number are trapped in a low-income-poverty cycle: "A vicious cycle in which their mobility is restricted to circulating among low-wage fulltime jobs, non-standard employment, and unemployment with very few opportunities to escape beyond the low-wage labour market."[49] As a result, they have great difficulty saving enough to deal with the economic hardship created by common risks (such as sickness and accidents) and economic risks induced by financialisation, notably economic crises. Once they lose their jobs, they may have difficulty sustaining a living.

26 With the ascendance of shareholder value as a result of increasing numbers of Hongkongers identifying themselves as investors, corporations have tried hard to restrain wage growth through informalising their noncore workforce through contracting out or through IT-enabled automation. Thus, economic insecurity is no longer just a concern for the poor; people in the lower-middle strata may also suffer from nonstandard employment and unstable labour markets. In today's Hong Kong, the principal source of income for these lower-middle-strata families is wage or salary work. The average family always devotes a large portion of its salaries to recurrent expenditure on education fees, mortgage payments, medical services, and other daily consumption. Frequent economic downturns induced by financialisation not only put their jobs at risk, but also deprive them of the possibility of drawing on their investments and savings to maintain their current living standards without losing wealth. The negative-asset group created by the Asian financial crisis and the group suffering from the Global Financial Crisis demonstrate the economic vulnerability of the lower-middle strata as well. Upper-middle-strata Hongkongers and the rich usually have sufficient liquid assets and cash flow to survive downturns, even crises, without needing to sell their assets at dismal prices. Although their wealth drops significantly during economic declines, it is just on paper (i.e. nominally) and temporarily. Once the economy resumes its upswing, their wealth will recover to or go beyond its previous level.

27 As Kim Ming Lee and ChingYin Cheng argue, under financialisation, the real wages of workers grow slowly, if not stagnating, and capital gains rather than wages become important income sources for asset-rich Hongkongers.[50] According to the latest Stock Market Retail Investor Survey,

> "The typical Hong Kong *retail stock investor* was 47 years old, with matriculation or above education, a monthly personal income of about HK$ 16,250 and a monthly household income of about HK$ 35,000. In comparison to the Hong Kong adult population and non-investors, stock investors comprised a larger proportion of males, individuals who received tertiary or above education, individuals employed in the finance industry and individuals of higher work status, higher monthly personal income and monthly household income" (emphasis original).[51]

28 In 2011, the median monthly income from main employment and median monthly domestic household income was $ 12,000 and $ 20,200 respectively.[52] About 34.5% of all Hong Kong households had income above $ 30,000.[53] These figures suggest that upper-middle-strata and

the major retail players in the financial markets. Continuing
ncialisation give them tremendous financial windfalls, but at the
main sources of income are derived from wages.
erty markets have been the major investment channel for
nsidering the increasing land and property prices, not all
he huge down payment and gain access to credit to finance such
ng Kong real estate markets have reached a level where only
strata households can help their children enter the property
blic outcries over the unaffordability of housing. Increasing
nt implications for old-age poverty at present and in the future.
rent resources of lower-income people, depleting their financial
arents and reducing their chances of accumulating enough for
ow turn to this old-age poverty issue.

y and retirement protection

30 In the mid-2000s, on average, 13.5% of people over 65 in OECD countries lived in income poverty, i.e., less than the half of the national median.[54] Using the same yardstick, the Hong Kong Council of Social Service (HKCSS) finds that the old-age poverty rate was between 32.5% and 36.4% from 2001 to the first half of 2012 (see Table 3). The figure for 2012 is 33.4%, which means that among every three elderly, one lives in poverty. The figures are above the OECD average. Indeed, old-age poverty has been a worrisome problem in Hong Kong for decades due to the lack of a public pension. Before the establishment of the MPF, family support, personal savings, and public assistance were the main retirement protections. The current rate of old-age poverty can be regarded as the failure of the first two to provide sufficient income for the elderly poor. Besides the universal Old Age Allowance (OAA), applying for the means-tested Comprehensive Social Security Assistance (CSSA) and Old Age Living Allowance (OALA) are the only way for poor old people to support a basic living. As Table 4 shows, from 2001 to 2011, old-age cases consistently represented more than half of all CSSA cases.

Table 3 – Old-age poverty in Hong Kong, 2001 to first half of 2012

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (1st Half)
Number (thousand)*	266.8 (36.4)	254.9 (33.7)	258.4 (33.4)	268.3 (33.6)	276.5 (34.0)	282.3 (35.6)	293.0 (35.8)	283.0 (34.4)	276.1 (33.0)	276.8 (32.5)	288.2 (32.7)	305.0 (33.4)

* The number of people of age 65 or above with monthly household income less than or equal to the median household income of the same household size. The numbers in brackets are old-age poverty rates.

Source: HKCSS, www.poverty.org.hk/povertydata?tid=28 (accessed on 5 February 2014).

31 According to the five-pillar pension model of the World Bank,[55] OAA, OALA, and CSSA constitute non-contributory zero pillar schemes. Nonetheless, OAA is trivial: its amount is so small that Hongkongers call it "fruit money," a token recognition of the contribution of old people to society. The other two are means-tested and target poverty alleviation. When the elderly apply for CSSA, by definition, they have very few assets, savings, or family support and are confronted with living difficulties. OALA and CSSA are merely for subsistence living. If people want to live a bit better, the only way is to get out of retirement and work. Hence, the zero-pillar in Hong Kong is merely for survival, or in the worst case, for sustaining the miserable life of the impoverished elderly.

32 In Hong Kong, the publicly managed mandatory and contributory first-pillar is absent. As mentioned before, there was a chance that an OPS could have been implemented in 1993. But the plan was thwarted by Hong Kong capitalists and the Chinese authorities. There are still many civil society organisations fighting for the establishment of a universal pension. Under Donald Tsang's government, officials rejected it on the pretext of a lack of consensus and the problems of a pay-as-you-go system. C. Y. Leung has promised to study the feasibility of establishing another layer of retirement protection, but has never showed any support for universal pensions.

33 The MPF is the mandatory second-pillar designed as a solution for Hong Kong's ageing society. However, its structural flaws have been widely discussed: its limited coverage (especially for non-working females), extremely insufficient lump sum benefits for future livelihood due to low contributions, high management fees and administrative costs, the poor financial literacy of
ging their account, and returns highly vulnerable to economic
uently under global financialisation. The worst happens when
benefits at 65 without other assets, savings, or family support,
cial assistance until all their MPF benefits are used up.
xpect to see their living standard decline unless they continue to
in old age is not easy, especially for workers with low skills and
people need to apply for the stigmatised means-tested social

illar under the World Bank model, given the high income
yment conditions in Hong Kong, a lot of upper-lower and lower-
ave or invest adequately, if at all, to prepare for increasingly
other words, this pillar is irrelevant to relatively low-earnings
e non-financial fourth-pillar, which includes family support,
wnership), and other social programmes, is probably the major
ment relies upon. As a liberal or residual welfare regime, the
he family to support the elderly, although the government does
nedical services to reduce the burden on families. However, the
nployment, smaller average household size, increasing divorce

rate, and declining intergenerational co-residence, together with the existing public pension system and levels of familial dependence, may expose many elderly to poverty.[56] First, nonstandard employment reduces the resources of adult children to support their elderly parents. Second, smaller household size implies fewer siblings to help share the responsibilities. Third, rising housing costs make it hard for adult children to let their parents live with them. Even worse, as Kok-Hoe Ng argues, "When these adult children eventually retire, they may have less pension savings and possibly even fewer children of their own to support them. If current trends persist, the problem of old-age income security may compound in successive generations."[57]

35 According to a 2012 government survey, among the future generation of retired persons (aged 35 or above), 79.2% had some sort of retirement protection from work: the majority (68.4%) cited the MPF.[58] If retirement protection from work is excluded, only 50.9% had made preparations for their post-retirement financial needs through savings and investment, and 16.3% expected their children to support them when they retired. The corresponding figures for the current generation of retired persons are 39.1% and 27.1%. These figures suggest that Hongkongers now rely more on their own savings and investment than on children to support their retirement, as compared to the already retired generations. The survey also found out that 40.8% (around 1.2 million) of non-retirees did not have any retirement preparation other than the retirement protection from work.[59]

36 If the role of family support in retirement protection is diminishing, other social programmes, such as public housing and medical services, may alleviate the devastating conditions of poor retirees. Unfortunately, as previously discussed, public social services, if not yet financialised to become commodities, are subject to the pressures of cutbacks. Thus, these social programmes will not help much, unless there is a strong political will or demand to retain their public and decommodified nature. The government has repeatedly warned the public about the ageing Hong Kong society and the related rising government expenses and contracting revenues. Its ultimate aim is to circumvent the political demands of increasing social welfare by claiming the importance of fiscal prudence. In facing the problems of future old-age poverty problems, the government has only promised to reform the existing MPF and introduced the OALA to release some political pressure. Nevertheless, the government, as usual, insists on the residual nature of social welfare and so far has no intention of devising any long-term institution to deal with the problems.[60]

Conclusion

37 In this paper, we attempted to analyse Hong Kong's income polarisation and inequality from the lens of financialisation, a fresh perspective in current literature. We began by showing that the Hong Kong economy is a financeled growth regime. Then we illustrated how the government has further developed the regime through financialising public housing and retirement, thus turning ordinary Hongkongers into investors. The financialisation of the Hong Kong economy does propel economic growth through the wealth effects generated by asset prices inflation. However, at the same time, it also reinforces the already worsening economic inequality by
nd destabilising labour markets. Through examining the five
system, we found that the chances for low-income households
are quite slim. Financialisation has led to a new "paradox of
holds face destabilised labour markets, stagnant wage growth,
g housing and daily consumption costs, even though saving and
by the state. They can barely make ends meet, not to mention
Without sufficient savings that can take advantage of the asset
he financialised Hong Kong economy, low-income retirees have
ssibly equally poor adult children, or on social assistance, after
ken along with the trend of declining family support as a means
overnment needs to consider alternative ways to protect low-
sk of old-age poverty. Maybe this is the time for the government
rsal pension, the first pillar, to guarantee a minimal monthly
ite of objections from capitalists, especially the financial sector.
e by the Hong Kong government is to encourage "reverse
oan, made against property owned by the debtor, becomes
ies or leaves their residence permanently. Reverse mortgage
nancialisation of welfare, and it would seem that the "asset-rich
om the scheme. A full review of the reverse mortgage program in

Hong Kong, which is still in its early stage, is beyond the scope of this article. Two preliminary remarks should suffice here. First, possibly because of cultural factors, reverse mortgages do not seem to be very well received among the retired in Hong Kong. Second, and more importantly, reverse mortgages – like the MPF scheme – benefit only those who are wealthy enough to own assets (invest). It therefore seems unlikely that reverse mortgage schemes would address the thrust of this article.

Notes

1 We are borrowing from the "old" paradox of thrift, a key concept in Keynesian macroeconomics, which argues that an increase in collective saving paradoxically reduces aggregate demand and therefore total output of the economy. While Keynes's focus is on the aggregate and ours on the distributional, the two paradoxes are similar in reminding us that economy-wide saving is not always beneficial.

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60 A recent related initiative by the Hong Kong government is to encourage "reverse mortgage" schemes, where a loan, made against property owned by the debtor, becomes repayable when the borrower dies or leaves their residence permanently. Reverse mortgage represents another example of financialisation of welfare, and it would seem that the "asset-rich but income-poor" may benefit from the scheme. A full review of the reverse mortgage program in Hong Kong, which is still in its early stage, is beyond the scope of this article. Two preliminary remarks should suffice here. First, possibly because of cultural factors, reverse mortgages do not seem to be very well received among the retired in Hong Kong. Second, and more importantly, reverse mortgages – like the MPF scheme – benefit only those who are wealthy enough to own assets (invest). It therefore seems unlikely that reverse mortgage schemes would address the thrust of this article.

List of illustrations

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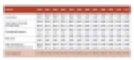	**Credits**	Source: Composite Employment Estimates, Census and Statistics Department, various years.
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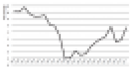	**Credits**	Source: Annual Report on the Consumer Price Index, Census and Statistics Department, various years.
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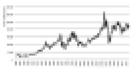	**Credits**	Source: Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk/eng/stat/smstat/statarch/statarchive.htm (accessed on 5 February 2014).
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