

Income Distribution

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It is not easy, if at all possible, to rigorously analyse the distribution of income and wealth in Hong Kong. The reason is simple: comprehensive data and information are lamentably scarce. The distribution of wealth is anyone's guess, there being no official, semi-official, or serious private surveys of any kind. Population census has been held every five years, but published household income statistics were too simple for more sophisticated treatment. A General Household Survey has been conducted on a quarterly basis since the first half of the 1980s. However, the format of the income data which are not published but are presumably available on request is such that not much systematic distributive diagnosis can be carried out. I do not know whether this state of informational paucity is a result of *laissez-faire* or deliberate policy, but all one can do now is to live with it and to write on the issue with as much objectivity as possible.

A Long-term Trend of Widening Inequality

Table 1 lists the changes in the decile distribution of household incomes as well as the Gini Coefficient in Hong Kong since 1971. The former of course gives a more disaggregated picture of income distribution in the territory. Apparently, a long-term trend of widening inequality has emerged. The share of the lowest income group, the first decile, fell from 2.3 per cent in 1971 to 1.4 per cent in 1981, rebounded slightly in 1986, and then resumed its slide to 1.3 per cent in 1991. The shares of the second and the third deciles showed a similar pattern, falling by about 1 per cent over the same time span. In contrast, the top 10 per cent of the households, i.e. the tenth decile, took an increasing share of income, except for 1976, gaining 2.7 per cent, while the ninth decile also chalked up a rise of 0.8 per cent. These trends are confirmed by the rising Gini Coefficient.

Table 1. Decile Distribution of Household Incomes in Hong Kong

Unit: % of total income

Decile of households	1971	1976	1981	1986	1991
First (lowest income)	2.3	1.9	1.4	1.6	1.3
Second	3.9	3.5	3.2	3.4	3.0
Third	5.1	4.6	4.4	4.4	4.0
Fourth	5.1	5.5	5.4	5.4	5.0
Fifth	7.0	6.8	6.5	6.4	6.1
Sixth	7.3	8.1	7.8	7.6	7.4
Seventh	9.0	8.8	9.4	9.1	9.0
Eighth	11.0	11.3	11.5	11.4	11.4
Ninth	14.7	15.9	15.2	15.2	15.5
Tenth (highest income)	34.6	33.6	35.2	35.5	37.3
Official Gini Coefficient	0.43	0.43	0.45	n.a.	0.48
Derived Gini Coefficient	0.408	0.417	0.437	0.435	0.462

Note: The official Gini Coefficient for 1986 is not available. The derived Gini Coefficient is calculated on the basis of the decile distribution using the standard formula. The Gini Coefficient falls by definition within the range of 0.0 to 1.0, with 0.0 representing absolute equality and 1.0 absolute inequality. Hence the larger the coefficient the more unequal is the distribution.

Sources: Hong Kong government, *Census Report*, various issues. The figures for 1991 were released by the government in response to a question from a Legislative Council member in a meeting on 25 November 1992.

This is about the most detailed picture of income distribution in Hong Kong in the past two decades that one can come up with. Any further analysis is impeded by the lack (or, more accurately, by the non-availability) of relevant data. One useful piece of data would have been the average or median income of the deciles, per household or per capita, none of which is released by the Hong Kong government. The Oshima Index, for example, is defined as the ratio of the per capita income of the top decile over that of the bottom decile--a popular indicator in the income distribution literature. It can be and has been

computed for China, at least for urban households.¹ A related index is the ratio of the average income of the top decile to the overall median income, which is regularly compiled in Western Europe and North America.² No such luck for Hong Kong.

Some Recent Evidence

Table 2, on the other hand, is constructed on the basis of Table 207 of the quarterly General Household Survey conducted by Census and Statistics Department of the Hong Kong government. It shows the distribution of households under different monthly income groups in the first quarter of 1985, as well as that in the fourth quarter of 1992. The original table gives a 37-bracket breakdown, which has been simplified to make it easier for intertemporal comparison. In the period, nominal per capita GDP (gross domestic product) in Hong Kong went up by about 150 per cent. That extent of growth can be used as a proxy deflator to adjust the income brackets over time. The simplified brackets are indeed so determined: HK\$1,499, the upper limit of the second income bracket, is about 250 per cent of the first, i.e. HK\$599; HK\$3,499 is roughly 250 per cent of HK\$1,499, and so on. Such a simplification is of course constrained by the original income groupings in Table 207. There is for example no upper income limit of HK\$3,747.50, which is exactly 250 per cent of HK\$1,499. We are forced to choose the *nearest* limit in forming the brackets.

Table 3 standardizes the income limits into “1992 dollars”, which have been adjusted for: (1) inflation between 1985 and 1992; and (2) the rise in average living standard in real terms. Hence a household which earned HK\$600 a month in 1985 should be able to have earned HK\$1,500 a month in 1992, if it could keep up with the improvement in nominal income of an average person in the territory. Even given its limitations because of the way that it is constructed within the confines of official information, the table reveals some disturbing evidence of widening income inequality. While about 30 per cent of households earned less than HK\$9,500 (adjusted) a month in Q1 of 1985, nearly 40 per cent failed to

¹ See Li-Roujian, “An Analysis of Differences in the Distribution of Income of People Living in China's Cities and Towns--With an Examination of Simon Kuznets' ‘Inverse “U”’ Hypothesis”, *Hong Kong Journal of Social Sciences*, No. 1 (Spring 1993), pp.19-34. The index for the urban households in China varied between 2.86 and 3.30 in 1985-1990.

² Figures are even disaggregated down to the individual level and broken down by sex. See for example Samuel Brittan, “Clues to Rising Unemployment”, *Financial Times*, 22 July 1993. According to the article, the ratio of the earnings of the top tenth to median income for males was in the range of 1.6 to 2.2 for France, Germany, the United States and the United Kingdom in the past two decades.

rise above that income level in Q4 of 1992.

Table 2 Household Income Distribution from General Household Survey

Unit: number of households

Income group (HK\$/month)	1985 Q1	1992 Q4
0-599	22,624 (1.61)	14,926 (0.90)
600-1,499	64,322 (4.59)	17,439 (1.05)
1,500-3,499	327,898 (23.37)	65,318 (3.93)
3,500-9,499	724,887 (51.67)	558,015 (33.55)
9,500-24,999	243,184 (17.33)	763,431 (45.90)
25,000-59,999	19,072 (1.36)	223,590 (13.44)
Above 60,000	913 (0.07)	20,541 (1.23)
Total number	1,402,900 (100.0)	1,663,260 (100.0)

Note: Q1, Q4 represent the first and the fourth quarters respectively. Figures in parentheses are percentage points.

Source: Census and Statistics Department, Hong Kong government, *General Household Survey*, Table 207. Data not published, but presumably available on request.

Table 3. Cumulative Comparison of Adjusted Household Income Distribution

Unit: % of households

Household income (HK\$/month)	1985 Q1	1992 Q4
Less than 600	n.a.	0.90
Less than 1,500	1.61	1.95
Less than 3,500	6.20	5.88
Less than 9,500	29.57	39.43
Less than 25,000	81.24	85.33
Less than 60,000	98.57	98.77

Note: n.a. - not applicable.

Source: Same as Table 2.

International Comparison

Because of the scarcity of local data and information, comparative analysis of the income distribution patterns of Hong Kong and other countries is a difficult task. Table 4 simplifies the figures of Table 1 into quintile distribution, and Table 5 presents alongside Hong Kong's distribution those of a selected group of countries at various levels of economic development, as represented by per capita GDP. The income share of the top decile of households is also listed for reference. The selection is admittedly subjective. It is nevertheless constrained by data availability as any reader of *The World Development Report 1992* may testify. The GDP figures are not the normal ones compiled, but the findings or derived numbers on the basis of purchasing power parity adjustments, as provided by the World Bank. Under such an analytical scheme, Hong Kong actually ranked higher in terms of economic development than both Singapore and the United Kingdom in 1990.

Table 4. Quintile Distribution of Household Incomes in Hong Kong

Unit: % of total income

Quintile of households	1971	1976	1981	1986	1991
First (lowest income)	6.2	5.4	4.6	5.0	4.3
Second	10.2	10.1	9.8	9.8	9.0
Third	14.3	14.9	14.3	14.0	13.5
Fourth	20.0	20.1	20.9	20.5	20.4
Fifth (highest income)	49.3	49.5	50.4	50.7	52.8

Source: Simplified from Table 1.

Table 5. International Comparison of Quintile Household Income Distribution

Quintile	Hong Kong (1991)	Guatemala (1978-81)	Spain (1980-81)	Singapore (1982-83)	United Kingdom (1979)	Japan (1979)	U.S.A. (1985)
First	4.3	5.5	6.9	5.1	5.8	8.7	4.7
Second	9.0	8.6	12.5	9.9	11.5	13.2	11.0
Third	13.5	12.2	17.3	14.6	18.2	17.5	17.4
Fourth	20.4	18.7	23.2	21.4	25.0	23.1	25.0
Fifth	52.8	55.0	40.0	48.9	39.5	37.5	41.9
Top 10%	37.3	40.8	24.5	33.5	23.3	22.4	25.0
Per capita GDP 1990	16,230	2,920	10,840	14,920	14,960	16,950	21,360

Note: The 1990 figures of per capita GDP were estimates based on purchasing power parity adjustments provided by the World Bank. The numbers may not add up to 100 because of rounding.

Source: Data for Hong Kong from Table 4, and the rest from the World Bank, *The World Development Report 1992*, Table 30.

It is indeed worrying to observe that Hong Kong's household income distribution in 1991 looked more like that of Guatemala in 1979-1981 rather than that of Spain, Singapore, or Britain, not to mention Japan and the United States, at various time points in the late 1970s and the 1980s. Hong Kong's degree of income inequality was worse than all of the latter five. The shares of the first to the fourth quintiles were smaller than theirs, while the percentage of the top (fifth) quintile was much higher. A noteworthy point is that the share of the top 10 per cent of households was more than 4 per cent above that of Singapore and more than 10 per cent above the other four countries!

Indeed, among the twenty-four “high-income economies” listed in Table 30 of The World Development Report 1992, in which Hong Kong was ranked the eighth, none of the economies' top quintile took more than 50 per cent of total income, with the exception of Hong Kong! In less than half of the cases did the share go above 40 per cent. As for the top 10 per cent of households, other than Hong Kong and Singapore, the share was invariably below 30 per cent. It was 37.3 per cent for Hong Kong in 1991.

Some Conjectures and a Plea

The standard theory defending non-intervention by the government in the distribution of incomes and wealth hinges on the so-called “Kuznets inverted-U”, which hypothesizes that in the process of economic development inequality would worsen before it gets better. In “trickle-down economics”, it is also asserted that the rich should not be constrained in their effort to create wealth, as economic benefits will eventually filter down to the lower strata of the society. As far as Hong Kong is concerned, there is no evidence that such a benign state of affairs is taking place, or is about to take place, despite the fact that economic development in the territory has already advanced to a very high level by any standard. Indeed, the opposite seems to be occurring: a long-term trend of worsening income gap is unfolding, as far as the very limited amount of available statistics can tell. Moreover, in the context of international comparison, Hong Kong's income distribution is strikingly unequal.

I have commented on the reasons behind such a phenomenon elsewhere.³ Here I would only summarize the major considerations. In the 1950s and the 1960s, there appeared to have been a period of narrowing income gap due to the standard explanations: industrialization, increasing labour participation, etc. Local scholars have estimated that the

³ Tsang Shu-ki, “Several Hypotheses on the Deterioration of Income Inequality in Hong Kong”, *Ming Pao*, 31 January 1992 (in Chinese).

Gini Coefficient in 1957 was 0.47.⁴ It subsequently fell to 0.41 or 0.43 in 1971, as shown in Table 1 above. However, since then other countervailing factors have asserted themselves and the trend has been reversed.

First, the fall in the average size of households and the ageing of the population have been rather dramatic in Hong Kong. From the level of 4.5 in the late 1970s, the average number of family members dropped to only 3.4 in 1991, while the “old” population (those above 65) has been growing at an average annual rate of over 4 per cent. The overall labour participation rate, on the other hand, rose from 64.0 per cent in 1971 to 66.8 per cent in 1981, but then declined to 64.3 per cent in 1991. Hence the earning ability of the average household has in general been undermined. The incomes of the upper social strata are nevertheless more assets-generated (from all kinds of investments) than labour-generated, and should therefore have been less affected, compared with the middle and the lower classes.

Second, the very low level of unionization of workers, as well as the emergence of monopolies and corporations with market power in a number of fields, implies relatively weak bargaining power on the part of employees over their remunerations, and despite the tight labour market situation in recent years, there is little evidence that workers have unduly benefited.⁵ The transformation of Hong Kong into a service-oriented economy would also tend to widen income gaps, as the salary structure in white-collar sectors usually shows a much wider spread than that in the manufacturing industries.

Finally, the relocation of plants and factories to the much cheaper processing zones in the Pearl River Delta has enabled many Hong Kong merchants to reap huge profits. Some of the money earned might not be repatriated but was reported in the census. The money repatriated might be spent or saved. In the former case, spending would generate a multiplier effect, benefiting also workers in the process through higher employment and wages, besides of course other employers and investors. In the latter case, no such effect would result. Overall, there is reason to believe that the China link might widen income inequality in Hong Kong, particularly if we take into account the inflationary impact of asset acquisition and conspicuous consumption by enriched local merchants and the increasing number of investors from the Mainland.

⁴ Ibid.

⁵ See Tsang Shu-ki, “Inflation”, in *The Other Hong Kong Report 1992*, edited by Joseph Y. S. Cheng and Paul C. K. Kwong (Hong Kong: The Chinese University Press, 1992), pp. 425-45.

These factors seem to be long-term or structural in nature and it is unrealistic to expect any substantial improvement in income distribution in Hong Kong. The situation may indeed get worse in the foreseeable future. The Hong Kong government has of course not been totally non-interventionist. In the areas of housing, health care, education, and other public services, it has been subsidizing the less fortunate members of the society, and the *redistributive* effect could not be regarded as insignificant, although more can and should be done. In its eagerness to push forward the process of “corporatization” and “privatization”, there is however a danger that redistributive objectives are brushed aside, exactly when the distribution pattern becomes worse. Taxation and expenditure policies need to be guided at least partly by these objectives, and as a start, much better data and information on income and wealth distribution should be collected and made available to the public. The present degree of data availability is bordering on the absurd.