

# **The Neoliberal Turn in Social Policy and the “Vicious Cycle of ‘Un-development’” in Hong Kong**

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## Abstract

The old social pact of Hong Kong was formed in the 1970s and comprised the dual elements of economic noninterventionism and the residual welfare state. Economic noninterventionism denotes the absence of a proactive state role in economic development complemented by a conservative financial policy of low tax rate and low public expenditure. At the same time, the state has been the major financer and provider of public housing, public health and a means-tested social assistance program (that is considered fairly generous by Asian standard), and has been the major financer of education and social service. These social programs constituted a residual welfare state, and which, despite its residual nature, provided a substantial social wage for the general population during a critical period of industrialization. The very condition for the sustenance of such a residual welfare state was a period of high economic growth leading to a continuous increase in government revenue to fund the expanding demand for social provisions, combined with a young population, full employment and real wage increases that minimized the public demand for welfare provision. (Lee 2005a, 2005b)

The Asian financial crisis marked the watershed of Hong Kong’s social policy development. It signified the formal ending of the economic miracle as well as the end of the old social pact. After three decades of economic growth, the unprecedented economic recession, record high unemployment rate and public budget deficit prompted the post-colonial government to retrench the residual welfare state. Cost containment and recommodification measures were taken in education, public housing, public health and social welfare to various extents. This retrenchment happened at a time when the middle and lower classes were deeply affected by real financial difficulties, a substantial decline in the standards of living, and a lack of social safety nets that could serve as a buffer against such economic fluctuations. Added to the pressure of economic globalization is socioeconomic change, which brings about an aging population and change in family structure and which require the state to assume more responsibility in social provision. (Lee 2005a, 2005b)

Confronted with the need for fundamental change in its welfare regime, the state has chosen to take a neoliberal approach toward further social policy development. This trend was first witnessed in the retirement scheme (the Mandatory Provident Fund Scheme, or MPFS) that was instituted in 2000. The MPF Scheme is a defined-contribution scheme with all contributions to a scheme fully vested in the scheme member. In education, the government is now encouraging more private and semi-funded schools (under a Direct Subsidy Scheme that allow schools more autonomy in fee charging) that entail more charges on parents, essentially requiring them to assume the responsibility of paying for better quality education for their children. In public health, the government has been trying to sell the public on a new scheme of financing that requires individuals to buy private health insurance from the market. None of these

programs have any redistributive effect. If anything, they all serve to widen the gap between the haves and the have-nots.

The significance of this neoliberal approach toward social provision is that firstly, the state realizes that the residual welfare state (which was viable in the 1970s and 1980s) has reached its limits and is no longer sustainable without fundamental change in its public financial policy. Secondly, it signifies the state's operationalization of its conservative public financial policy in the age of economic globalization, namely, in a situation of increasing economic fluctuation and financial uncertainty, the state prefers to minimize its commitment to the financing and provision of social programs.

Under the neoliberal approach, the middle and upper class are actively encouraged to fend for their own needs through giving them more "choices" from the market. This marketization approach will reinforce the support of the middle and upper class toward the conservative financial policy as well as their resistance against any demand of redistribution from the lower class.

At the same time, we are witnessing demand for renegotiation of the social pact from below. Since the Asian financial crisis, there has been tremendous social mobilization led by civil society activists, academics, trade unionists and pro-grassroots politicians demanding comprehensive measures to combat poverty. Their demands include minimum wage legislation, the setting down of a poverty line, and comprehensive retirement policy for the elderly population. So far, the state has not given in to any of these demands for a more inclusive welfare system save for modest measures of appeasement.

In sum, the neoliberal approach to social policy will lead to a less inclusive welfare system, a regression in social citizenship, and more acute class polarization. It may also lead Hong Kong into a "vicious cycle of un-development": the social and economic cleavages that are created as a result of neoliberalism are not conducive to democratization, while the lack of progress in democratization will further diminish the opportunities for progressive reform in social policy. This will only lead to a deepening of the political and social crisis in this city-state with potentially devastating consequences.

## References

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