

## Adopt socially secured wage packets, not minimum wage

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The recent popular demand for the introduction of minimum wage signifies that, even after a good economic recovery, many are earning wages below subsistence level.

For our externally dependent economy, it would be detrimental to bridge that poverty gap by imposing wages higher than those determined by market forces in a globalized world. Doing so would make the territory less competitive, decreasing the total output pie and number of jobs. The least skilled and experienced job-seekers, in particular, would be unable to land jobs to get on the social ladder.

Moreover, small externally dependent economies are volatile and, during business downturns, the minimum wage would curtail our economy's ability to adjust, but hardest hit would be jobs held by the least skilled and experienced. At all times, moreover, minimum wage provides no help to the self-employed.

Meanwhile the Comprehensive Social Security Assistance (CSSA) scheme, which has none of these defects, already guarantees workers a standard of living equal to or above that likely to be offered by minimum wage.

For example, an unemployed, able-bodied couple with two children are entitled to monthly CSSA of \$9,974 for basic expenses, plus all school-related outlays for the children. When the couple earn income their CSSA entitlement is reduced but only falls to zero by the time their earned income reaches around \$13,000.

The concept of CSSA is sound. Whereas the entire labour force work together to produce the total economic pie, market forces often result in the incomes of some households falling short of subsistence level living. It is generally accepted in market economics that those shortfalls, defined as needs, should be met by payments from public revenue.

The CSSA is relatively efficient. Unlike our housing assistance programme, it does not grant the same standard benefit to everyone below a certain income level, but purports to meet the actual need or shortfall in each case. Unlike in housing, too, it is a cash benefit and recipients are free to spend it to maximize their satisfaction.

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Since around the 1990s, in order to provide the unemployed with incentive to work, many industrialized countries started paying income supplements to low-income workers. These reforms to “make work pay” have generally been effective. In the UK, income supplements, introduced in 1999, are administered as “Working Tax Credits” in order to remove the stigma of welfare.

The CSSA, too, provides incentive to work. When an unemployed CSSA recipient gets a job and earns income, his CSSA entitlement would only fall by half of his income over \$600 but below \$4,400, and only fall dollar for dollar once earned income exceeds \$4,400. In fact the CSSA integrates unemployment benefit, income supplement and aid for the elderly, meeting the recognized needs of each claimant.

What should be done for those of our workers too proud and self-reliant to claim CSSA, while preserving our economic flexibility? The answer is not minimum wage, but wage packets comprising both wages from the employer and income supplement, where entitled, from government. In the UK, for 6 years after its inception, the Working Tax Credit was paid as part of wage packets. (This method was phased out recently and payment is now in lump sum to the recipient’s bank account.)

The CSSA might be renamed CSS or Comprehensive Social Security, dropping the word “Assistance”. One possibility is to collect from every adult a flat-fee CSS levy. The purpose would be not so much to cover the cost of CSS as to make clear that everyone is entitled to it. CSS payments, be they unemployment benefits, income supplements, or aid to the elderly, might be termed Comprehensive Allowance (CA).

There will likely be more CA recipients than there are CSSA claimants now. The resultant higher cost would be well justified by increases in social and economic well-being. Cost might be mitigated by more people coming off unemployment benefits to work

A panel of experts and representatives of the community should be tasked to determine, periodically, a basket of goods and services that constitutes an equitable “safety net” level of living for the able-bodied unemployed, as well as what additional allowances are justified for the elderly etc. There should be a mechanism for flexible adjustment reflecting changes in, perhaps not consumer prices but, say, median household income, so that both pain and well-being are

shared in the community.

People normally work for an income, and save for the day there is none. Hong Kong people, in particular, have been known for their drive to work and to save, and their flexibility in adapting to adverse conditions. Our social security system must preserve and not weaken these qualities. The CSS unemployment benefit should be carefully reviewed to avoid being overly generous<sup>1</sup>.

At the same time, the way income supplement is structured in CSSA probably reduces incentive to work. Once a worker's earned income exceeds \$4,400, every additional dollar earned would be offset by a \$1 drop in CSSA entitlement. Taking into account the quite copious unemployment benefit, people might be tempted not to work at all or seek only jobs paying less than \$4,400. One solution is to have, say, a two-thirds rate of offset throughout.<sup>2</sup>

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<sup>1</sup> In the example given above, the \$9,974 basic benefit includes \$3,545 for rental, which is enough to pay for a copious, up-scale public housing unit. Since eating at home is not expensive in Hong Kong and all school-related expenses can be claimed, one wonders whether there is room for some degree of tightening in this entitlement for the able-bodied unemployed, bearing in mind our proposal to offer more generous income supplements. The unemployment benefit is only a safety net and unemployed persons are normally expected to tighten their belt and to rely at least partly on their own savings. During the difficult years of the Asian financial crisis and SARS from 1997 to 2003, it became apparent that unemployed CSSA recipients led lifestyles more comfortable than those of many of the employed.

<sup>2</sup> Income supplement under CSSA in fact stops at the \$4,400 income level. The first \$600 of earned income is disregarded and for the next \$3,800 of income, the offsetting fall in CSSA benefit is 50%, or \$1,900. After that \$4,400 income threshold, every \$100 earned will be offset by \$100 fall in CSSA, until one's total benefit is offset. For the couple in our example, after \$1,900 is offset over \$4,400 of income, there remains some \$(9,974 - 1,900) or \$8,074 of benefit which will be completely offset by the time they earn around \$13,000 (4,400 + over 8,074). In other words, there would be zero increase in living standard by earning more than \$4,400, not until the couple earn more than \$13,000.

The temptation is particularly great for, say, young couples with children up to 3 years old. By getting low-paying jobs, they can have the government pay major portions of expensive child care centre fees, paying a fraction themselves. Their benefits thus bloated by those child care fees paid, they would have to earn that much more before there is any gain from earning a higher income.

If, instead, a two-thirds offset rate is applied throughout, what this means is that for every \$100 earned, benefit will fall by \$67 so that the living standard rises by \$33. This will continue until the relevant CSS benefit is completely offset, after which, of

At present, owners of assets above a certain amount would be ineligible for CSSA. This poses a disincentive to save. To reward savings, drop this criterion but impute a return at a uniform rate on all assets owned, and include that return in income for calculating CSS entitlement.

Lastly, the following reform should bring the greatest benefits of all. In the example cited above, the \$9,974 entitlement includes a \$3,545 rental allowance. The latter should become a housing allowance usable for home purchase. Couple this with putting public housing units up for sale (and rental) at market prices. The result would be extension of the home ownership option to low-income families. As our population ages many of the elderly, turned home-owners, would live better on their own means, saving social assistance dollars.<sup>3</sup>

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course, every \$100 earned will translate into \$100 rise in living standard.

<sup>3</sup> For other benefits of this reform of the housing assistance programme, such as savings for the Budget, please see the paper “Restructuring housing assistance: benefits for housing, Budget and the economy”.