



## 1. Introduction

1.1 Social harmony can be defined as a condition of society in which stability is achieved by upholding values such as mutual trust, respect and inclusiveness.<sup>1</sup> With its roots traced back to the ancient Chinese philosophy of Confucianism, social harmony has been reinvigorated by the Central Government in the 2000s<sup>2</sup>, and later, by the Hong Kong Government in the 2005 Policy Address, which emphasised social harmony as the building block of stability and prosperity. Nonetheless, social harmony is a complex construct hardly attributed to one single factor or measured by a single indicator. In an attempt to gauge social harmony, some scholars have used a myriad of factors ranging from public governance (e.g. law and order), to the social aspect (e.g. tolerance of diverse values) and economic aspect of social harmony (e.g. extent of economic inequality).<sup>3</sup>

1.2 While economic inequality in terms of income and wealth commonly exist in societies, unchecked inequality is considered to have adverse effects on social harmony. In fact, income inequality is at its historical high in most countries of the Organisation for Economic Co-operation and Development ("OECD") since the end of the Second World War.<sup>4</sup> The Gini coefficient of market income<sup>5</sup> stood at an average of above 0.46 in OECD economies in 2018. The richest 10% of the OECD population earn about nine times more than the poorest 10%, up from seven times a quarter century ago.<sup>6</sup> Wealth inequality is even more pronounced, with the richest 10% of households in OECD

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<sup>1</sup> See Ip (2014), and Bell and Mo (2013).

<sup>2</sup> The former President Hu Jintao has called for the building of a "harmonious society" based on principles such as fairness and justice, trustworthiness and fraternity, stability and order, etc. See 中華人民共和國中央人民政府 (2006).

<sup>3</sup> See Ip (2014) and Hong Kong Professionals and Senior Executives Association (2014).

<sup>4</sup> See United Nations (2014).

<sup>5</sup> It is a common gauge of income inequality before government taxes and transfers (i.e. market income inequality). It ranges from 0 to 1, with 1 being complete inequality. See OECD (2020b).

<sup>6</sup> See OECD (undated).

economies owing half of the total net wealth in the form of property and financial assets.<sup>7</sup> Hong Kong is no exception. Income inequality as measured by Gini coefficient has also hit a four-decade high in 2016, raising concerns over increasing poverty and the availability of opportunities for climbing up the income and social ladder.

1.3 A growing body of literature suggests that the consequences of growing inequality are detrimental to society. A widening income and wealth gap can adversely affect social mobility, which can be intra-generational or inter-generational.<sup>8</sup> Rising inequality can also generate a greater sense of unfairness, erode trust among people and in governments, and even fuel tensions and divides that jeopardize political, economic and social stability.<sup>9</sup>

1.4 At the request of Hon WONG Ting-kwong, the Research Office has conducted a study on fiscal redistribution policies adopted in selected places to address economic inequality, which is considered an important factor of social harmony. Singapore and New Zealand are chosen for the study. While both are advanced Asia-Pacific economies like Hong Kong, they have managed to taper economic inequalities with a holistic range of redistributive measures targeted at low- and/or middle-income people. Singapore has made home ownership affordable to most families, apart from its emphasis on early childhood development and human capital investment on lower-wage workers. Likewise, New Zealand has extended assistance to the working poor, especially families with children, with income subsidies. It has also stepped up efforts to promote home ownership by introducing flexible housing options (e.g. rent to buy) to help targeted households progressively move up the housing ladder.

1.5 This information note first reviews the global trends on fiscal redistribution policies with reference to OECD countries and China, and moves on to the section on Hong Kong to examine its inequality trend and redistributive measures to tackle the issue. This is followed by a discussion of the redistributive approaches in the two selected places, focusing on policy areas critical to a person's well-being, including (a) housing, (b) employment, and (c) support for families with children.

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<sup>7</sup> See Balestra and Tonkin (2018).

<sup>8</sup> Intra-generational mobility refers to the ability for people to move between socioeconomic classes within their own lifetime. Inter-generational mobility occurs when a person moves up or down the socioeconomic ladder compared to his/her parents. See World Economic Forum (2020).

<sup>9</sup> See Keeley (2015) and Clements et al. (2015).

## 2. Global trends on fiscal redistribution

2.1 Globally, the policy response to growing economic inequality is multidimensional. Redistributive policies reduce the inequality of disposable income (i.e. income after taxes and transfers), primarily through income redistribution towards lower-income households via **taxes and transfers**.<sup>10</sup> For example, cash transfers such as unemployment and social assistance secure the minimum living standards of low-income groups. Personal income taxes play a crucial role in equalizing disposable income, whereas capital gains taxes on properties and wealth taxes on inheritance are used in some places to enhance the progressivity of the tax regime. Meanwhile, in-kind benefits such as subsidized education can lower income inequality through their impact on future earnings and access to opportunities for individuals, thus reducing the need for fiscal redistribution.

2.2 Overall, taxes and transfers are estimated to have curtailed income inequality by an average of 25% in OECD economies.<sup>11</sup> Yet owing to different redistributive policies with different mix and size, the **redistributive effect** – as measured by the difference in the Gini coefficient before and after taxes and transfers – varies widely across OECD economies (**Figure 1**). The redistributive effect is the highest in some Nordic and Central European countries, all characterized by relatively large cash transfers financed by higher taxation. These are followed by places such as Japan and New Zealand, where transfers are smaller but targeted at low-income groups or spent on old-age pensions. A higher redistributive effect may have positive association with social mobility and social harmony. According to the World Economic Forum's Global Social Mobility Index, the Nordic countries took the top spots in the list of 82 economies, while several Asia-Pacific economies such as Japan, Singapore and New Zealand made it to the top 25.<sup>12</sup> Norway and Finland also scored among the highest in the Social Harmony Index compiled by scholars to measure the extent of harmony with indicators such as peaceful order and respect for diversity.<sup>13</sup>

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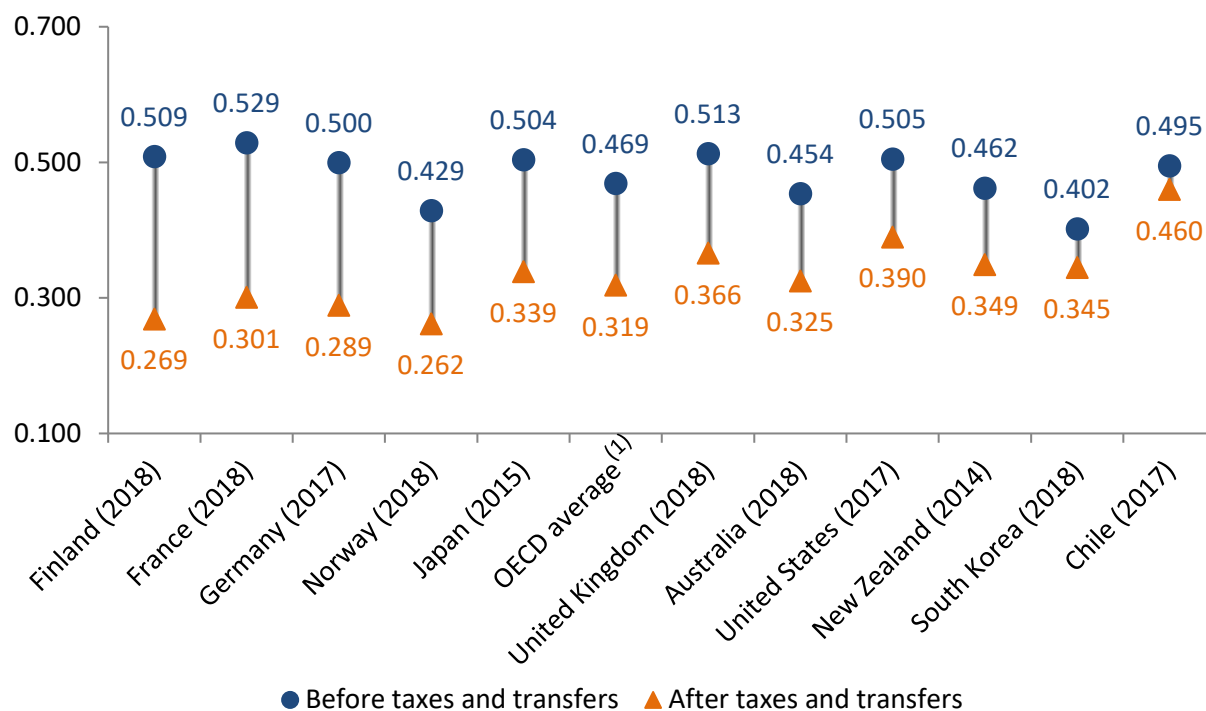
<sup>10</sup> See Clements et al. (2015).

<sup>11</sup> See Causa et al. (2017).

<sup>12</sup> See World Economic Forum (2020).

<sup>13</sup> See Bell and Mo (2014).

**Figure 1 – Reduction in Gini coefficient in selected OECD economies, 2018 (or latest year available)**



Note: (1) It is based on data from 37 OECD member countries (excluding Colombia) in 2018 or the latest year available.

Source: OECD (2020b).

2.3 While taxes and transfers are common policy tools for redistribution, transfers have reduced income inequality more than taxes in OECD countries, contributing to 75% of the reduction.<sup>14</sup> In particular, transfers related to housing, employment and support for children and families have gained particular attention from policymakers. Due to rising **housing** cost, the share of owner-occupied housing in the total housing stock has been static or even declined in nearly all OECD countries since 2000. On the other hand, amid rising housing prices and a shortage of subsidized housing<sup>15</sup>, private rental housing has been on consistent growth across all age groups (except seniors). Instead of using grants to subsidize home purchases, more OECD countries have turned to providing housing allowances for low-income households to rent in the private market, with relevant spending at about 0.3% of GDP since 2009. While housing is the biggest spending item of households in OECD countries,

<sup>14</sup> See Joumard et al. (2012) and Causa et al. (2017).

<sup>15</sup> Since the Global Financial Crisis, public investment in housing development has halved to less than 0.1% of GDP across OECD countries on average. See OECD (2020a).

housing assets make up about half of total household assets.<sup>16</sup> Unequal access to home ownership is therefore considered to have profound implications on wealth accumulation, potentially widening wealth inequality.<sup>17</sup>

2.4 On **Employment**, social transfers in the form of cash benefits are common measures to help the unemployed, vulnerable job seekers and/or the in-work poor in OECD countries. Such transfers have reduced the in-work poverty rate by half on average in OECD.<sup>18</sup> However, owing to concerns that welfare may act as an impediment to economic efficiency by eroding work incentives and creating welfare dependency<sup>19</sup>, there has been a shift of emphasis to a redistributive policy focusing on human capital investment – strengthening one's capacity to generate income – rather than merely relying on cash assistance.<sup>20</sup> For example, skills training and hiring subsidies are increasingly used to expand the employment opportunities for those facing disadvantages, such as older unemployed workers in ageing societies.

2.5 Supporting **families with dependent children** is another crucial aspect. Children's early years set the stage for future growth and can have lifelong impact on their income and social outcomes.<sup>21</sup> Yet since the onset of the Global Financial Crisis a decade ago, child poverty rates have risen in two-thirds of OECD countries, with one in seven children living in income poverty.<sup>22</sup> To combat child poverty, OECD countries have generally pledged to support parental employment by making work pay and improving access to affordable childcare, and has enhanced family benefits for poor families with children. On average, every 1% increase in social spending per capita is associated with a 1% decrease in child poverty rate.<sup>23</sup>

2.6 Beyond OECD countries, other economies have made considerable efforts to tackle inequality by uplifting the poor. One example is **China**, which has pledged in the 14th Five Year Plan (2021-2025) to make further progress on redistribution to narrow inequality between rural and urban areas.<sup>24</sup> The Mainland has progressively developed a near-universal social security system,

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<sup>16</sup> Ibid.

<sup>17</sup> See Causa et al. (2019).

<sup>18</sup> See OECD (2009).

<sup>19</sup> See International Monetary Fund (1998).

<sup>20</sup> See Cingano (2014) and International Monetary Fund (2018b).

<sup>21</sup> See UNICEF (undated).

<sup>22</sup> The poverty threshold is set at 50% of median equivalized income. See Thevenon et al. (2018).

<sup>23</sup> See OECD (2018).

<sup>24</sup> See 中華人民共和國中央人民政府(2020).

under which health insurance and old-age pensions have been expanded to provide coverage to rural residents and non-working urban residents.<sup>25</sup> A means-tested social assistance scheme known as "最低生活保障", also called Dibao (低保), is in place to provide basic income support for the poor, although social spending in China still trails behind other economies.<sup>26</sup>

2.7 Job creation is another focus of China's poverty alleviation strategy. The Mainland has created temporary jobs<sup>27</sup> and has actively supported the development of e-commerce entrepreneurship as a means to promote social mobility. A World Bank study suggests that the growth of e-commerce infrastructure and logistics has revitalized the rural village economy by widening the market access for producers. The number of "Taobao villages", defined as villages engaged in e-commerce with annual transaction volume of over 10 million yuan (HK\$12 million) and at least 100 active online shops, rose from 20 in 2013 to some 4 300 in 2019.<sup>28</sup> Since the early 1980s, through reform and opening-up, as well as extensive poverty alleviation efforts in rural areas, China has lifted more than 700 million people out of poverty, which accounted for more than 70% of global poverty.<sup>29</sup>

### 3. Hong Kong

3.1 As with other developed economies, Hong Kong measures income inequality with the Gini coefficient, which is compiled by the Census and Statistics Department ("C&SD") every five years, with the latest figures compiled in 2016. Gini coefficient compiled by C&SD primarily measures (a) disparity of cash income; and (b) effect of taxation and in-kind social benefits. Estimation of cash income disparity is based on original household income, which covers employment income, other cash income (e.g. dividend), and cash social benefits

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<sup>25</sup> See International Labour Organization (2018) and Gao et. al. (2018).

<sup>26</sup> Social assistance spending, which includes spending on Dibao and other assistance programmes, is about 0.7% of China's GDP, compared to 1.6% in emerging economies and 2.1% in OECD economies. See International Monetary Fund (2018a).

<sup>27</sup> One example is the creation of "public welfare posts (公益性崗位)" (e.g. cleaning and elderly care jobs) in poor villages so that people can improve public local services while supporting themselves. Some 30 000 "poverty alleviation workshops (扶貧車間)" have also been set up in idle houses in impoverished communities, allowing the poor to earn a living close to home by taking up simple industrial and agricultural processing work. See China.org.cn (2020) and Xinhua (2021).

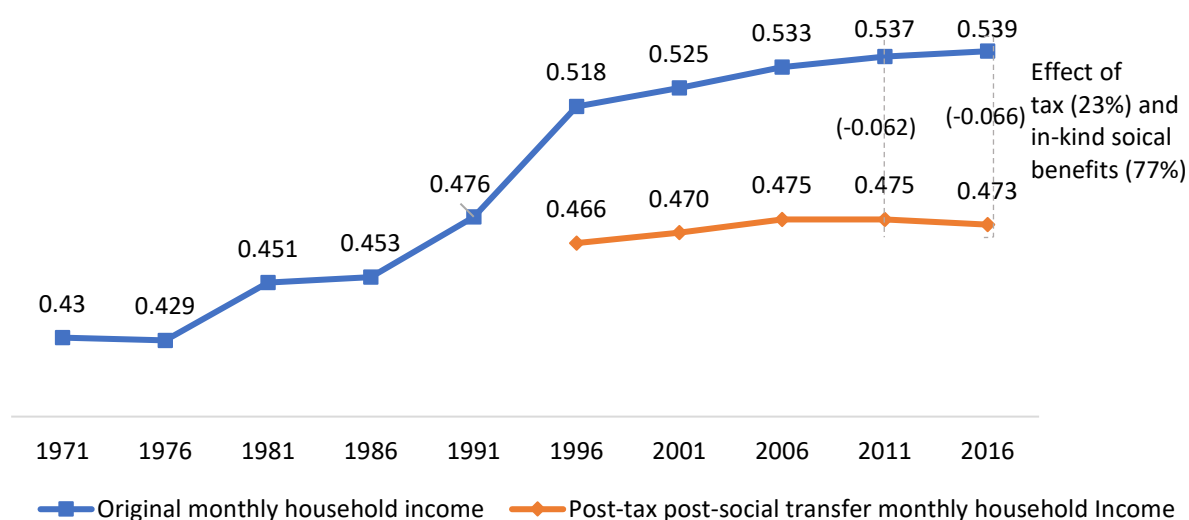
<sup>28</sup> See World Bank (2019).

<sup>29</sup> See World Bank (2018).

(e.g. Old Age Living Allowance and Comprehensive Social Security Assistance ("CSSA")). In the 1970s and 1980s, the Gini coefficient was on rapid rise amid economic advancement, indicating widening income inequality (**Figure 2**). The acceleration was mainly due to inflow of immigrants from the Mainland and economic restructuring, leading to significant changes in the labour market and earnings structure.<sup>30</sup>

3.2 Since the mid-1990s, growth of Gini coefficient has moderated, in particular after the statutory minimum wage was implemented in 2011 and cash social benefits (e.g. Old Age Living Allowance) was increased in the early 2010s. In recent years, the Government has allocated more resources to alleviate poverty. In 2020-2021, the recurrent expenditure on social welfare was estimated at HK\$90.9 billion, a 56% increase compared with 2015-2016. Among the expenditure items, elderly services made up the second largest component after CSSA.

**Figure 2 – Income disparity measured by Gini Coefficient, 1971-2016<sup>(1)</sup>**



Note: (1) Data for post-tax post-social transfer household income is not available prior to 1996.

Sources: Financial Secretary's Office (2017), Census and Statistics Department (2007) and (2017).

3.3 Taxes and in-kind social benefits have the effect of narrowing household income disparity. As indicated in **Figure 2**, Gini coefficient after adjusting for outflows of taxation and inflows of in-kind social benefits was 0.473 in 2016, representing a reduction of 0.066. The magnitude of reduction was slightly higher than that in 2011, indicating increased strength of redistributive policies over the period. Taxes accounted for 23% of the effect

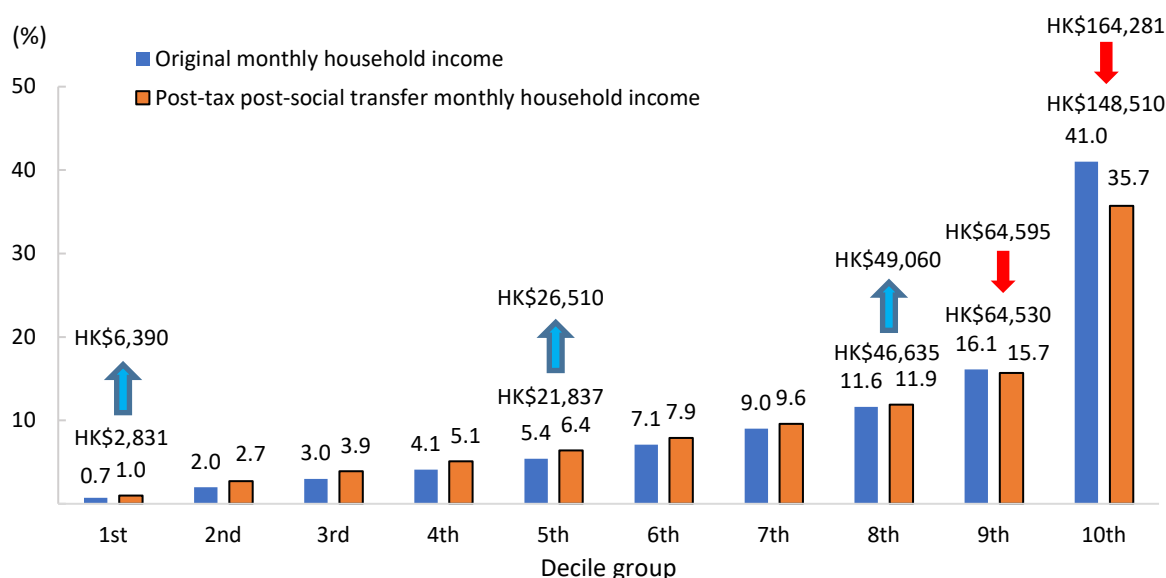
<sup>30</sup> See Financial Secretary's Office (2017).



while in-kind benefits accounted for 77%. Under C&SD's measurement framework, taxation covered salaries tax and property tax, as well as general rates and government rent, whereas in-kind social benefits included housing, education and medical benefits.<sup>31</sup>

3.4 As illustrated in **Figure 3**, taxation and in-kind social benefit transfers have increased the average monthly household income of the **first to eighth** decile groups. After **redistribution**, income inequality between the rich and the poor has narrowed. The average monthly household income of the bottom decile group grew by 126% to HK\$6,390. The top decile group's income decreased by about 10% to HK\$148,510. Hong Kong features a low taxation regime with a tax-to-GDP ratio of less than 13% in 2019. Still, taxation plays a role to achieve a more even distribution of income and reduce the inequality of wealth. There are suggestions of increasing the progressivity of existing taxes and/or introducing new taxes like capital gains tax, to help broaden the tax base on one hand and counter the inequality gap on the other.<sup>32</sup> The Financial Secretary has said that while it is not the right time to introduce new taxes, the Government will study the feasibility of incorporating progressivity in the current rating system.

**Figure 3 – Percentage distribution and average monthly household income before and after tax and in-kind social transfer, 2016**



Source: Census and Statistics Department (2017).

<sup>31</sup> In-kind social benefits include housing benefits pertaining to public rental housing and subsidized home ownership housing; education benefits are imputed based on school type and education level; medical benefits cover student medical service, elderly health care voucher scheme, etc.

<sup>32</sup> For detailed analysis about progressive taxation, please see Legislative Council Secretariat (2021a).



3.5 Although the Government has markedly increased the expenditures on social welfare in recent years, poverty and housing have remained the most concerned issues in society. On **poverty**, based on the analytical framework of the poverty line endorsed by the Commission of Poverty, there were still 474 000 poor households in 2019 after recurrent cash intervention.<sup>33</sup> In particular, for households without members in employment (i.e. unemployed households and economically inactive households), **child poverty** was particularly acute at over 70% (**Figure 4**).

3.6 Since 2012, the Government has launched the means-tested Working Family Allowance Scheme to promote self-reliance. The Scheme targets households earning not more than 50% median income of economically active households. For a four-person household with two children, the allowance amount was up to HK\$2,600 per month in 2018, and increased to HK\$4,200 in 2020. According to the Hong Kong Poverty Situation Report 2019, 113 600 **poor working households** met the income and working-hour requirements of the Scheme. This number is markedly higher than the overall 61 100 households who benefited from the scheme in 2019. The low participation might be due to a lack of awareness of the Scheme or household assets being exceeding the specified limit.<sup>34</sup>

3.7 Employed persons in poor working households are also characterized by **lower-skilled occupation and lower education level**, with 80.5% attaining upper secondary level or less. To help upskill the workforce, the Employees Retraining Board has been offering training courses for those with education level at sub-degree or below. Depending on the income level, the cost of training can be subsidized at different degrees or waived. In 2018-2019, there were 58 000 trainees pursuing the skills upgrading courses.

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<sup>33</sup> The poverty line framework is based on the "relative poverty" concept set at 50% of the median monthly household pre-intervention income. The framework includes only recurrent cash measures. According to Census and Statistics Department (2020), if including also non-recurrent cash measures and in-kind benefits, there were 287 400 households in poverty in 2019. However, this serves as supplementary information only and detailed analysis on socio-characteristics by poor household type is not provided.

<sup>34</sup> For a four-person household, the household asset limit is HK\$548,000, excluding owner-occupied properties. However, the Hong Kong Poverty Situation Report 2019 states that it is unsure how many poor working households have exceeded the asset limit.

3.8 Likewise, the **elderly** poverty rate is the highest among all age groups. However, the Government indicated that some elderly households had a certain amount of assets or received support from their children by direct payment. Since these items are not covered under the current poverty measurement framework, it is possible that the actual living standard of these elderly has been underestimated.<sup>35</sup> Indeed, the Hong Kong Poverty Situation Report 2019 estimates that, if the value of these elderly's owner-occupied mortgage-free housing is converted to monthly receivable life annuity payouts, over 70% of them would not be living below the poverty line. Yet to encourage employers to hire elderly workers, the Labour Department has in place an employment programme with the provision of on-the-job training allowance. The monthly allowance provided to participating employers is up to HK\$5,000 per elderly employee for up to 12 months.

**Figure 4 – Characteristics of poor household groups after recurrent cash intervention**

	Poor households				All households
	Poor working households	Unemployed households	Economically inactive households	All poor households	
Number of households	154 200	20 300	299 400	474 000	2 611 900
Average household size	3.3	2.5	1.8	2.3	2.7
Median monthly household income	HK\$14,300	HK\$4,500	HK\$3,700	HK\$6,800	HK\$28,000
Monthly average poverty gap	HK\$3,800	HK\$7,300	HK\$4,400	HK\$4,300	–
<ul style="list-style-type: none"> <li>• Proportion of children aged under 18 (<i>poverty rate of children</i>)</li> <li>• Proportion of elders aged 65+ (<i>poverty rate of elders</i>)</li> </ul>	22.8% (12.3%)	14.7% (74.5%)	10.8% (76.5%)	16.4% (17.8%)	14.6% – 15.4% –
Occupation and education of the employed persons					
<ul style="list-style-type: none"> <li>• Higher-skilled/Lower-skilled</li> <li>• Post-secondary/Upper secondary or less</li> </ul>	15.9%/84.1% 19.5%/80.5%	– –	– –	15.9%/84.1% 19.5%/80.5%	44.0%/56.0% 44.4%/55.6%
Housing					
<ul style="list-style-type: none"> <li>• Public rental housing</li> <li>• Private housing tenants</li> <li>• Owner-occupiers               <ul style="list-style-type: none"> <li>• With mortgages/ loans</li> <li>• Without mortgages/ loans</li> </ul> </li> </ul>	47.7% 8.7% 40.7% 8.5% 32.2%	38.2% 11.0% 46.8% 11.1% 35.6%	34.4% 6.1% 55.0% 4.3% 50.6%	38.9% 7.2% 50.0% 6.0% 44.0%	30.6% 16.0% 49.8% 16.0% 33.9%

Source: Census and Statistics Department (2020).

<sup>35</sup> See GovHK (2021b).

3.9 Poverty alleviation was part of the Government's efforts for fostering social harmony. Back in 2005, the then Chief Executive remarked in the Policy Address the importance of social harmony. To promote this in the face of rapid social change, he committed that the Government would continue to, among others, make efforts to seriously address the problem of poverty to break the cycle of **inter-generational poverty** and take good care of **the disadvantaged**; and do the best to maintain the stability of the **middle class**, with the creation of a favourable environment for their personal advancement through providing more learning opportunities and promoting economic development.<sup>36</sup>

3.10 Nevertheless, lack of quality and affordable housing has been considered one of the areas hindering social harmony in recent years. While the supply of public rental housing has failed to meet the growing demand, **home ownership rate** has reduced across every household decile group, except the lowest decile group (**Figure 5**). On the other hand, the opposite trend was seen in tenancy. According to C&SD's household expenditure survey published in June 2021, private housing cost (mainly rent and management fees) accounted for the largest part of household expenditures, at 44% on average.

**Figure 5 – Socio-economic characteristics by decile group in 2016 and changes relative to 2006<sup>(1)</sup>**

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>	Overall
Average domestic household size	1.5	1.8	2.3	2.7	2.8	3.0	3.2	3.3	3.3	3.2	2.7
Median household income (HK\$)	2,780 (+21%)	7,560 (+26%)	12,000 (+33%)	16,490 (+37%)	21,360 (+40%)	28,000 (+44%)	35,000 (+48%)	45,750 (+50%)	62,500 (+49%)	112,300 (+47%)	24,890 (+46%)
Population above age 65 (%)	51.2 (+5.3)	44.6 (+22.5)	18.4 (+6.0)	14.5 (+3.1)	13.3 (+3.8)	11.4 (+2.8)	10.3 (+2.8)	9.1 (+1.8)	8.2 (+1.5)	7.7 (+1.1)	15.7 (+3.8)
Owner-occupiers (%)	55.2 (+5.9)	29.2 (-1.9)	27.5 (-8.6)	33.6 (-6.0)	42.2 (-5.3)	48.3 (-6.6)	54.3 (-5.7)	60.3 (-6.1)	66.4 (-5.5)	67.7 (-3.3)	48.5 (-4.3)
Tenants (%)	37.6 (-9.7)	67.2 (-0.2)	69.9 (+7.3)	63.8 (+4.5)	55.3 (+3.9)	49.2 (+5.3)	43.5 (+4.5)	37.3 (+4.8)	31.5 (+4.3)	30.3 (+2.2)	48.6 (+2.7)
Tenure - Public rental housing (%)	30.9 (-11.5)	54.5 (-0.2)	48.3 (+0.9)	42.0 (-3.2)	37.3 (-0.3)	32.9 (+3.7)	27.5 (+2.5)	19.5 (+2.5)	9.0 (-0.3)	1.8 (-0.8)	30.4 (-0.7)

Note: (1) Figures in brackets denote changes in percentage points relative to year 2006, except median household income where the changes represent percentage change.

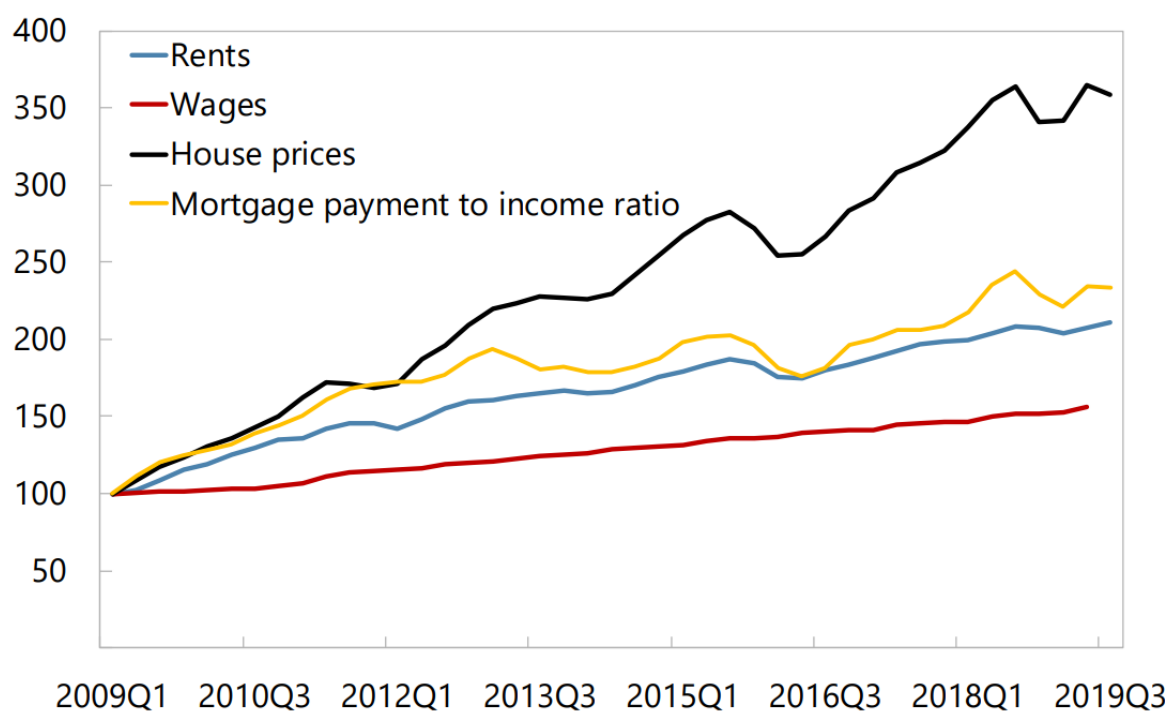
Sources: Census and Statistics Department (2007) and (2017).

<sup>36</sup> See Office of the Chief Executive (2005).

3.11 Many low- and middle-income young households and singletons have been struggling to meet the basic needs of adequate housing, in the face of soaring property prices and rentals (**Figure 6**).<sup>37</sup> According to a government-funded study on social mobility published in 2016, young people tended to believe that "their living standard is not fair compared with their efforts in the job".<sup>38</sup> There is a view that prolonged rise in housing prices amid close-to-zero interest rate environment has not only eroded housing affordability, but also widened significantly the **wealth gap** between home owners and those who are not.<sup>39</sup> However, the Government does not measure the situation of wealth inequality in Hong Kong.

**Figure 6 – Trend of Hong Kong's housing prices, rents and wages**

(Index, 2009Q1 = 100)



Source: International Monetary Fund (2019).

## 4. Singapore

4.1 With an open capital market and economy like Hong Kong's, Singapore is not immune to the global trend of rising inequality. The Gini coefficient of

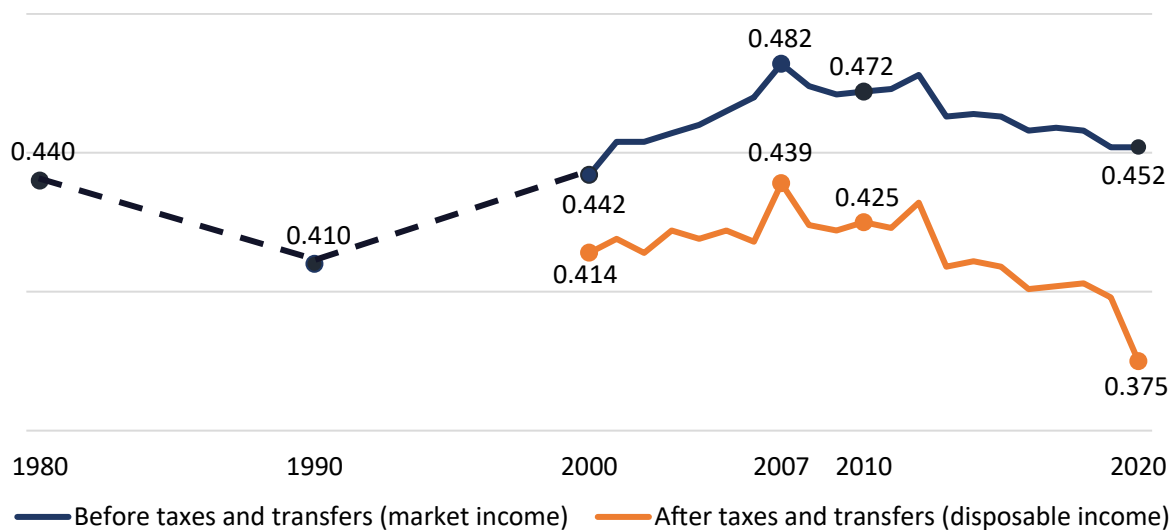
<sup>37</sup> For details about housing supply, please see Legislative Council Secretariat (2021b).

<sup>38</sup> See Chinese University of Hong Kong (2016).

<sup>39</sup> See Hong Kong Monetary Authority (2019).

market income in Singapore has hovered above 0.40 since 1980, indicating a high level of inequality by global standard.<sup>40</sup> The evolution of income inequality in Singapore falls into three main stages (**Figure 7**).<sup>41</sup> In the **early years of nation-building**, basic social welfare was compensated by an exponential growth in education and job opportunities. In the 1980s, Singapore's Gini coefficient of market income trended slightly downwards. Yet income inequality began to worsen in the **1990s to mid-2000s**, as globalization, importation of foreign workers, and the shift towards a knowledge-based economy had widened the wage gap between skilled and unskilled workers, leading to more uneven income growth.<sup>42</sup> The Gini coefficient of market income climbed in the 1990s and 2000s to reach the peak of 0.482 in 2007. **Since the late 2000s**, Singapore has taken a more holistic approach to tackling income inequality by expanding support in housing, employment and healthcare. In 2020, government transfers and taxes through relief packages reduced the Gini coefficient from 0.452 to 0.375, the largest decline in nearly two decades.<sup>43</sup>

**Figure 7 – Gini Coefficient in Singapore, 1980-2020<sup>(1)</sup>**



Note: (1) The Gini coefficient is based on household income from work per household member. The dotted line gives a rough estimate of the trend as data for particular years are not available. Data for after taxes and transfers are not available before 2000.

Sources: Singapore Department of Statistics (2021a) and Ministry of Finance (2015).

<sup>40</sup> The United Nations regards a Gini Coefficient of 0.4 as the "international alert line" for income inequality. See UN Habitat (2016).

<sup>41</sup> See Ministry of Finance (2015).

<sup>42</sup> Ibid and Dhamani (2008).

<sup>43</sup> See Department of Statistics Singapore (2021b).

4.2 Singapore does not appear to publish official data on wealth inequality. According to a global wealth report<sup>44</sup>, Singapore's Gini coefficient of wealth inequality plunged in 2011 after the Global Financial Crisis, and has fluctuated above 0.7 in the past decade. It trended upward to 0.757 in 2019, compared with the European average of 0.824 and the world's 0.885.

4.3 Singapore policymakers have been concerned about the impact of rising inequality on social harmony. In a parliamentary address in 2018, the Prime Minister reportedly noted: "Singapore's politics will turn vicious, its society will fracture and the country will wither" if the country allows inequalities to create "a rigid and stratified social system".<sup>45</sup> He thus highlighted the need to strengthen social welfare nets and ensure the paths to upward mobility are available to all. However, rather than using high taxation to finance welfare transfers, Singapore stresses a **low-tax model**, which translates into lower social spending but **targeted support** for the needy in such areas as housing, early childhood development and employment, among others.<sup>46</sup>

#### Affordable housing policy as social stabilizer

4.4 In the 1950s to 1960s, Singapore faced a shortage of housing with a quarter million population living in overcrowded dwellings with poor sanitation. Racial and social tensions were high, as ethnic groups were living in segregated quarters under the British colonial rule.<sup>47</sup> Since Singapore gained independence in mid-1960, the city-state has made housing policy a priority. **Home ownership** is considered a key pillar in Singapore's nation-building, as it lends support to social mobility and stability by developing a sense of rootedness among people.<sup>48</sup> Hence, Singapore established the Housing and Development Board ("HDB"), tasking it with building affordable public housing with socially cohesive neighbourhoods. Salient features of Singapore's housing policies are highlighted below:

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<sup>44</sup> The Global Wealth Databook provides estimates for wealth distribution for over 200 countries. See Credit Suisse (2019).

<sup>45</sup> See The Straits Times (2018).

<sup>46</sup> Although Singapore's social spending as a percentage of GDP rose from about 5% in 2007 to 8% in 2017, it still lags behind the OECD average of 20%. See Ministry of Finance (2015), Ministry of Social and Family Development (2018) and OECD (2020e).

<sup>47</sup> See Public Service Division (2015a).

<sup>48</sup> See Public Service Division (2015b).

- (a) **Home ownership over rental housing:** HDB offers both rental housing and subsidized flats for sale at a significant discount off the market prices via the Home Ownership Scheme.<sup>49</sup> HDB flats overall provide homes to 80% of Singapore's resident population, of which, around 90% own their homes.<sup>50</sup> This compares with a much lower owner-occupancy rate for public housing in Hong Kong.<sup>51</sup> On the other hand, public rental housing in Singapore is intended to meet the housing needs of the most disadvantaged households, accounting for just 5% of public housing.<sup>52</sup> Public rental housing is not an alternative to home ownership, but a stepping stone and safety net for the most needy families. The standard tenancy period is normally two years subject to renewal, and the waiting time is generally less than two months for applicants who are not particular about location<sup>53</sup>;
- (b) **Extensive and progressive home ownership assistance:** Since 1968, the government has allowed people to use a portion of their Central Provident Fund ("CPF") savings for home purchase.<sup>54</sup> A host of housing grants are also available for Singapore citizens (**Appendix**), with lower-income households usually receiving larger grants. To illustrate, a first-timer family earning less than S\$1,500 (HK\$8,800) per month receives up to S\$80,000 (HK\$468,000) for buying a new HDB flat, on top of the discounted flat price, or up to S\$160,000 (HK\$937,000) for a resale HDB flat in the open market,<sup>55</sup> and

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<sup>49</sup> It is worth noting that a precondition for large-scale development of affordable public housing in Singapore lies in adequate land supply, which has been made possible through massive land reclamation and compulsory acquisition from private landowners. For details, please see Legislative Council Secretariat (2013).

<sup>50</sup> See Housing & Development Board (2020b).

<sup>51</sup> Around 45% of Hong Kong's population live in public housing, and of those, 34% own their homes. See Transport and Housing Bureau (2020).

<sup>52</sup> Singapore's public rental housing targets households with no other housing option and family support, and those earning not more than S\$1,500 (HK\$8,800) per month. Monthly rent starts from as low as S\$26 (HK\$152) for a one-room apartment. See Housing & Development Board (2020a) and Development Asia (2018).

<sup>53</sup> See Ministry of National Development (2020) and Legislative Council Secretariat (2013).

<sup>54</sup> CPF is Singapore's defined-contribution retirement savings scheme. The maximum amount of CPF savings that a first-time buyer can withdraw for buying an HDB flat on bank loan is capped at 120% of the purchase price or valuation, whichever is lower. See Money Sense (2018).

<sup>55</sup> See Gov.sg (2020a).



- (c) **Promoting social integration:** Singapore introduced in 1989 the Ethnic Integration Policy to promote social harmony and foster a more balanced racial mix in HDB estates. For example, HDB flats must be allocated and sold based on pre-determined ethnic quotas to provide opportunities for social mixing among people of different races, while mixing small and large flats helps ensure the mixing of income levels. While this quota policy has been characterized by a government official as "intrusive", it is considered effective in promoting social integration of different races and income groups.<sup>56</sup>

4.5 In sum, Singapore's pro-home ownership policy has helped lower-income households to move up the housing ladder, enabling two generations of Singaporeans to own their homes. A 2018 government report showed that 87% of those in the **bottom 20%** by household income owned their own homes, similar to the overall home ownership rate of 90%, which is one of the highest in the world.<sup>57</sup> Yet Singapore's housing policy is not free from concerns. Some are worried that the priority over home ownership translates into fewer housing resources for public rental tenants and deepens housing inequality, as reflected by the differences between rental and ownership flats in terms of quality.<sup>58</sup> There are also concerns that CPF-financed home ownership risks premature depletion of retirement funds. In response, the government has pledged to speed up the redevelopment of older public rental blocks and help family tenants plan for home ownership, and introduced schemes to let retirees monetize their housing equity in return for a monthly income for life.

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<sup>56</sup> See Gov.sg (2020b) and Centre for International Governance Innovation (2018).

<sup>57</sup> See Ministry of Social and Family Development (2018).

<sup>58</sup> For example, limited space and privacy is cited as a common issue for public housing tenants since only 1- and 2-room flats are available for rent, while there are HDB flats of various sizes (1- to 5-room) for sale. It is also argued that short tenancies of two years create insecurity for tenants. See Channel News Asia (2018).

## Uplifting children/pupils from disadvantaged families

4.6 Early childhood development is another area that has gained traction in Singapore's policy agenda to mitigate income inequality. The government has boosted financial support for parents by giving the first-born citizen child a S\$8,000 (HK\$46,800) **cash gift** through the Baby Bonus Scheme. Parents also receive an initial deposit of S\$3,000 (HK\$17,500) into the **Child Development Account** ("CDA"), a special savings account which can be used for their children's healthcare and educational expenses. The government then matches every dollar the parents saved into CDA<sup>59</sup>, and makes ad-hoc top-ups to the account to benefit less well-off families. Besides, extensive subsidies are provided to keep childcare affordable. Low-income families with working mothers receive additional subsidies for infant/child care services, on top of universal basic subsidy. They may pay as little as S\$3 (HK\$18) per month for full-day childcare at subsidized preschools.<sup>60</sup>

4.7 Other than financial support, Singapore has set up a **dedicated agency** to oversee aspects of children's development below the age of seven. Established in 2013, the Early Childhood Development Agency ("ECDA") is tasked with ensuring equal access to quality and affordable early childhood development programmes. An example is KidSTART, an **early intervention programme** piloted by EDCA to assist lower-income families and their children, all the way from pregnancy to preschool.<sup>61</sup> Through partnerships with public hospitals, KidSTART has qualified professionals making regular **home visits** and providing supported playgroup sessions<sup>62</sup> for new parents to hone their skills about child's growth and nutrition. KidSTART has benefited more than 1 000 children since it started in 2016, and the government plans to expand the programme to reach another 5 000 children by 2023.<sup>63</sup>

4.8 Furthermore, Singapore has strengthened **afterschool care** for pupils who lack a conducive home environment. Every primary school in Singapore has a school-based student centre ("SSC"), where students from disadvantaged

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<sup>59</sup> The maximum amount of dollar-for-dollar matching from the government is capped at S\$3,000 (HK\$17,500) for the first child, with the amount increased for subsequent children.

<sup>60</sup> See Early Childhood Development Agency (2020).

<sup>61</sup> KidSTART is eligible for households (a) with Singapore Citizen children aged up to six; (b) with a gross monthly income of S\$2,500 (HK\$14,600) or less; and (c) living in one of the pilot regions.

<sup>62</sup> Unlike ordinary playgroups, these sessions are delivered by ECDA-trained facilitators, and are specially designed to help parents learn about child development and develop parent-child bonding through purposeful play sessions with their toddlers aged one to three.

<sup>63</sup> See Public Service Division (2020).

families can attend afterschool enrichment programmes such as homework supervision and recreational activities at a subsidized rate.<sup>64</sup> Similarly, afterschool programmes such as **academic coaching and mentorship activities** are offered at secondary schools to reduce absenteeism and drop-out rates. In 2020, 27 000 pupils were enrolled in SSCs, while some 3 000 benefited from afterschool programmes in secondary schools.<sup>65</sup> In part owing to government efforts to improve the quality of schooling, Singapore consistently ranks top of the World Bank's Human Capital Index. The 2020 index showed that children in Singapore could realize on average 88% of their potential productivity when they grow up, compared with 81% in Hong Kong and 70% in high-income economies.<sup>66</sup>

### Workfare as the fourth pillar of social security

4.9 Unlike many advanced economies, Singapore has neither a universal minimum wage nor targeted unemployment assistance for employees.<sup>67</sup> The government attaches importance to "workfare" – the philosophy that work is the most appropriate form of social assistance.<sup>68</sup> Workfare serves as the fourth pillar of social security<sup>69</sup> in Singapore, aimed at assisting vulnerable and low-wage workers to achieve self-reliance and upward income mobility, thereby reducing inequality.

4.10 In face of a rapidly ageing population<sup>70</sup>, Singapore has enhanced support for **older jobseekers and the long-term unemployed**, who tend to be more vulnerable in the labour market. Apart from offering financial assistance

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<sup>64</sup> Children from low-income families (with gross monthly household income of S\$4,500 (HK\$26,300) or less) can get up to 98% subsidy of programme fees.

<sup>65</sup> See Public Service Division (2020).

<sup>66</sup> See World Bank (2020).

<sup>67</sup> Singapore adopts the Progressive Wage Model to set out salary floors and progression pathways for workers in specific sectors such as cleaning and security, but not for other sectors. Unemployed workers may receive a temporary cash allowance with medical, utilities and other assistance under ComCare, the means-tested social assistance programme.

<sup>68</sup> See Civil Service College Singapore (2007).

<sup>69</sup> The other three pillars are home ownership, CPF and healthcare assurance. See Singapore Budget (2015).

<sup>70</sup> Currently, about 60% of Singapore's labour force is 40 years or older, up from 30% in the 1960s-1980s. See Gov.sg (2020c).

to low-income seniors through the Silver Support Scheme<sup>71</sup>, Singapore has encouraged elderly and middle-age employment with considerable wage support. Employers can receive monthly wage support capped at S\$3,000 (HK\$17,533) for hiring and reskilling non-managerial citizens aged 40 or above and/or those who are unemployed for six months or more. Whereas in Hong Kong, there is a monthly allowance of up to HK\$5,000 for employers providing on-the-job training for elderly job seekers aged 60 or above, for six to 12 months.

4.11 Different from Hong Kong where support for low-wage workers is scattered through various departments and schemes<sup>72</sup>, Singapore provides the bottom 20% low-income workers with targeted support through the one-stop Workfare programme.<sup>73</sup> Launched in 2007, the Workfare programme consists of two components:

- (a) **Workfare Income Supplement ("WIS")**: It provides low-income workers with (i) CPF top-ups for retirement, and (ii) a wage supplement of up to an extra 30% of their monthly income.<sup>74</sup> The amount of WIS payouts also **increases with age** to provide more protection for older workers. For example, an employee aged 60 or older receives an annual payout of up to S\$4,000 (HK\$23,400), more than doubled the amount for an employee aged 35-44. Since inception, WIS has benefited some 930 000 workers, with payouts totalling S\$7.8 billion (HK\$45.6 billion);<sup>75</sup> and
- (b) **Workfare Skills Support ("WSS")**: It encourages low-wage workers to receive upskilling training that leads to better employment outcomes. Eligible workers receive a training allowance of

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<sup>71</sup> The scheme provides quarterly cash payment to supplement the retirement income of eligible seniors aged 65 or above, whose income is in the bottom 20%. The amount of payout ranges from S\$180 to S\$900 (HK\$1,050-HK\$5,230), depending on household income and housing type. Since the launch of the scheme in 2016, about S\$2.2 billion (HK\$12.8 billion) have been paid out to over 180 000 seniors.

<sup>72</sup> For example, the Working Family Allowance Office provides an income supplement for low-income working households. The Employment Retraining Board have provided time-limited training allowances for the unemployed and underemployed to upgrade their skills amid the COVID-19 pandemic. For more details, see paragraphs 3.6-3.7.

<sup>73</sup> To qualify for Workfare, one should be a Singapore citizen; aged 35 or above; have a monthly income not exceeding S\$2,300 (HK\$13,400) and live in a property whose annual value does not exceed S\$13,000 (HK\$76,000).

<sup>74</sup> The worker receives 40% of his/her WIS payment in cash and the remaining in CPF contributions.

<sup>75</sup> See Workfare (2021).

S\$6 (HK\$35) per hour (up to 180 hours) and a cash reward capped at S\$1,000 (HK\$5,800) per year for completing training. Sponsoring employers are also eligible for absentee payroll funding at 95% of their employees' hourly basic salary (with no dollar cap). While WSS may not have an immediate impact on wages, it invests in human capital through skills training that can pay off in the form of higher future earnings. Through the Workfare programme, the bottom 20% of wage earners reportedly saw their real incomes increase by 40% cumulatively in the last decade.<sup>76</sup>

4.12 Despite the aforementioned efforts to enhance support in housing, early childhood development and employment support, Singapore has kept the overall tax burden low to maintain its economic competitiveness. In 2018, its tax revenue accounted for 13% of GDP, less than half of the OECD average.<sup>77</sup> Nevertheless, Singapore has vowed to increase the progressivity of its tax regime to enhance redistribution. For example, it has raised personal income taxes for the highest earners to 22%. Singapore's property tax is also progressive in nature, with tax rates ranging from 10% to 20% for vacant and rented properties.<sup>78</sup> There are currently no wealth taxes in Singapore, although the government has noted that there is scope to further review such taxes to meet the growing social spending needs.<sup>79</sup>

## 5. New Zealand

5.1 In New Zealand, income inequality after taxes and transfers, as measured by the Gini coefficient, hovered between 0.25 and 0.35 in the last three decades (**Figure 8**). During the late 1980s to the mid-1990s, there had been a rapid and significant rise in income inequality, largely as a result of

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<sup>76</sup> See Ho and Tan (2020).

<sup>77</sup> See OECD (2020d).

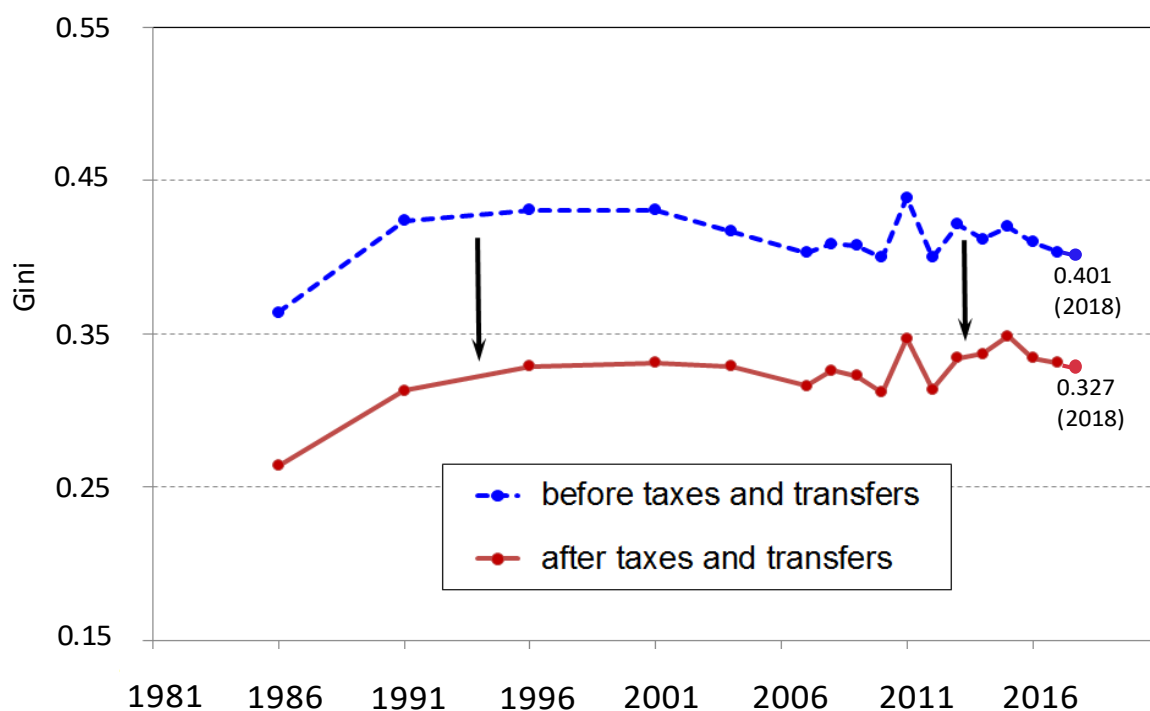
<sup>78</sup> Property tax in Singapore is a tax on property ownership, which applies also to owner-occupier residential properties, at lower progressive rates. In addition to property tax, rental income from properties is also subject to income tax. Whereas in Hong Kong, property tax applies only to rental properties at a flat rate of 15%. Owner-occupier residential properties are not subject to property tax. See Inland Revenue Authority of Singapore (2021) and GovHK (2021a).

<sup>79</sup> See Ministry of Finance (2021).

reduction in tax rates and social benefits, as well as wage setting reform.<sup>80</sup> Since the mid-1990s, income inequality had exhibited a fairly flat trend. The volatility after 2010 was due partly to the impact of the global financial crisis and associated economic downturn and recovery. According to its government, taxes and transfers have reduced the Gini coefficient by 20%-22% during 2003 to 2013. In the latest estimates, the reduction has narrowed slightly to 18%-19% in 2017 and 2018.

5.2 On wealth inequality, New Zealand conducted its first survey on household wealth in 2015 and the second one in 2018. Based on the survey findings, 70% of household net worth was concentrated in the top 20% of households. The net worth of the richest 20% of New Zealand households has risen 29% since 2015, reaching a median of NZ\$1.75 million (HK\$9.73 million) (**Figure 9**). Wealth assets comprised predominantly owner-occupied housing and investments in other real estate and financial assets.<sup>81</sup>

**Figure 8 – Trend of income inequality in New Zealand<sup>(1)</sup>**



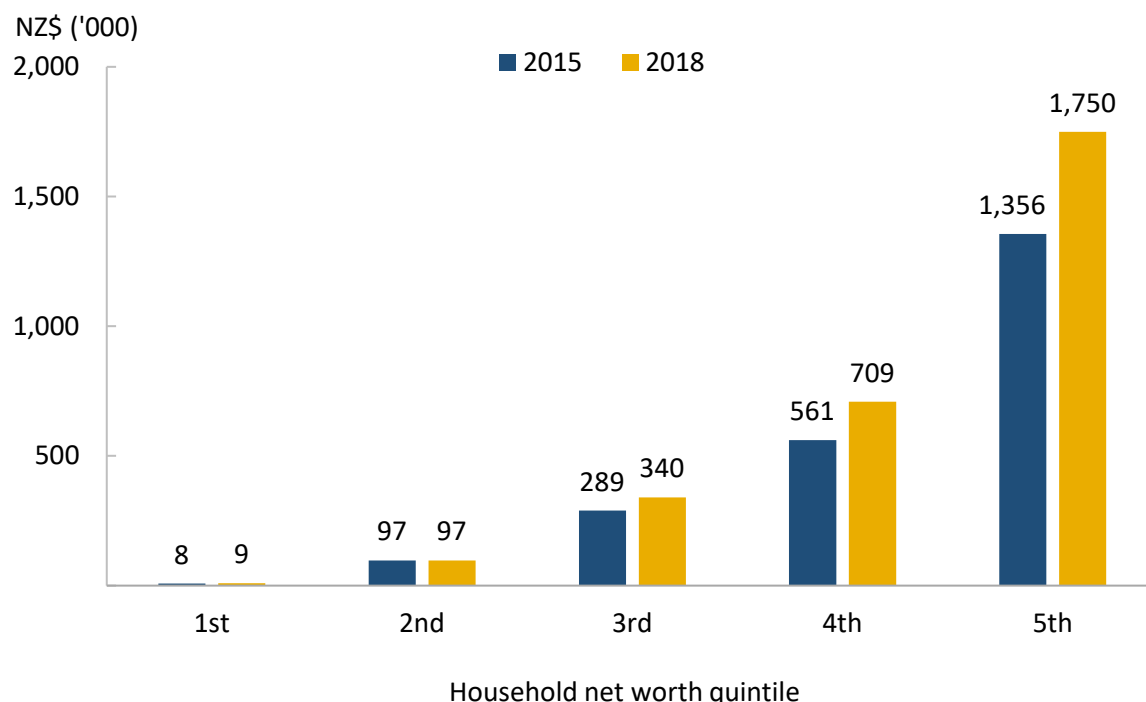
Note: (1) The data in the above table covers the population from age 18 to 65.

Source: Ministry of Social Development (2019b).

<sup>80</sup> In 1991, New Zealand abolished the traditional system of centralized wage fixing. Since then, labour has been treated as a marketable service and the wage as a market price, agreed freely between employers and individuals or groups in decentralized contract negotiations. See Wolfgang (1995).

<sup>81</sup> See Stats NZ (2018).

**Figure 9 – Median net worth by household net worth quintile**



Source: Stats NZ (2018).

5.3 The causes of income and wealth inequality in New Zealand are considered to be mainly due to **wage inequality, increasing housing costs, and unequal educational outcomes**.<sup>82</sup> Especially, when income inequality is higher, the opportunities for economic advancement are considered more unequally distributed among **children**. Recognizing this, the New Zealand government has attached high importance to supporting people into work and ensuring income adequacy of families with children. In particular, the policy of Working for Families ("Wff") introduced in 2004 was considered effective in narrowing the income inequality.<sup>83</sup>

#### Raising income of low-to-middle households

5.4 The Wff package was introduced during 2004 to 2007 by the Ministry of Social Development as a reform to the former family assistance schemes. The initiative supports working-age parents in **low and middle-income families** to seek and stay in employment, by ensuring that they are financially better off

<sup>82</sup> See Carey (2015) and New Zealand Council of Christian Social Services (undated).

<sup>83</sup> See The Treasury (2009).



from working.<sup>84</sup> There are mainly three types of financial support, which are income-tested rather than asset-tested:

- (a) **Family Tax Credit**<sup>85</sup>: it is a weekly payment accessible by **all low and middle-income families** with dependent children, regardless of whether the parents are working or not. For a household with two dependent children, the maximum subsidy is currently at NZ\$204 (HK\$1,130) per week. The annual income threshold is currently NZ\$42,700 (HK\$236,560), beyond which the amount of subsidy will progressively reduce;
- (b) **In-Work Tax Credit**: it is an **additional** weekly payment for working parents, provided that they are not receiving other welfare benefit. Households with two dependent children are eligible to receive up to NZ\$72.5 (HK\$402) a week. As part of the response to COVID-19, the work-hour requirement is now lifted; and
- (c) **Minimum Family Tax Credit**: it is a **top-up** payment for **low-wage families** with dependent children. The payment ensures after-tax family income reaching at least NZ\$588 (HK\$3,270) a week, on condition that one or both parents in a two-parent family work a minimum of 30 work hours a week. The guaranteed income is more than the amount of benefits that are paid to eligible job seekers.

5.5 At the time of introduction, the WfF package was expected to account for 4.4% of total government spending.<sup>86</sup> The bulk of money was paid to families **below the median** and especially to those well below it.<sup>87</sup> According to a study, it was estimated that after the reform in 2007, a family with two children earning NZ\$15,000 (HK\$83,500) a year was entitled to WfF benefits exceeding 100% of the earnings; a family with the same structure earning NZ\$25,000 (HK\$139,100) a year would be entitled to 46% of the earnings.<sup>88</sup>

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<sup>84</sup> See Welfare Expert Advisory Group (2018).

<sup>85</sup> Though the benefits are labelled as "tax credit", they are nothing related to tax payment by families. Yet it is processed and paid through the Inland Revenue Department.

<sup>86</sup> See St. John et al. (2008).

<sup>87</sup> See Ministry of Social Development (2019b).

<sup>88</sup> See Johnson (2005).

However, earnings were subject to income tax, at marginal rates from 15% to 21%<sup>89</sup>, so the take-home amount was reduced.

5.6 After completion of the reform, households in the lowest 40% income groups saw their income increase by **13%-17%**, effectively reducing the income gap between high income and low income households.<sup>90</sup> The share of children living in poverty had dropped by eight percentage points. In 2018, the WfF package was further enhanced as part of the government's effort to reduce child poverty. It is estimated that 385 000 families with dependent children will on average receive an additional NZ\$75 (HK\$416) per week. Meanwhile, the government has introduced a "Best Start" scheme to provide a universal non-means-tested weekly payment for **new born babies** in the first year of the baby's life. The benefit will continue in the second and third years for low- and middle-income families on a means-tested basis. Based on the financial account in FY2018-2019, WfF related assistance accounted for nearly 10% of the New Zealand government's transfer payments and subsidies, the second largest expenditure item after retirement income support.<sup>91</sup>

### Labour market policies to promote employment

5.7 Besides family income support, New Zealand has pursued various active labour market policies, with one of the aims being to achieve **equity**, by "helping job seekers who are more disadvantaged to more fairly share the amount of the employment available in the economy". Apart from efforts on job matching and training, since 2012, the government has been providing **wage subsidies** under the Flexi-wage Scheme to support employers to hire people who are at risk of long-term unemployment, or disadvantaged in the labour market due to, for example, a lack of education and training. The level of subsidies is generally provided at NZ\$276 (HK\$1,500) a week, for a total of 24 or 36 weeks, covering also the costs of **training, mentoring and/or in-work**

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<sup>89</sup> This was based on the period from 2000 to 2008, and applied to income level not more than NZ\$38,000 (HK\$211,400).

<sup>90</sup> See Ministry of Social Development (2010).

<sup>91</sup> New Zealand has long put in place the pay-as-you-go retirement income system, known as New Zealand Superannuation ("NZS"), which features universal access by all citizens or permanent residents aged 65 or above, irrespective of their income or assets. In 2018-2019, superannuation expenditures accounted for 52% of total transfer payments and subsidies of the New Zealand government. Due to ageing population and public opposition to pension reform, its government, after extensive public debate, established in 2001 the New Zealand Superannuation Fund to partially prefund the future cost of the pension benefits. See The Treasury (2019) and Ministry of Social Development (2019b).

**support.** Employers are required to pay at least the minimum wage and continue the employment after the benefit has ended. A total of 40 167 Flexi-wage subsidy applications were approved between July 2014 and June 2020.<sup>92</sup>

5.8 The latest available information indicated that flexi-wage expenditures accounted for 5%-8% of total expenditures on employment assistance between 2012-2013 and 2015-2016. The scheme is considered to have significant positive impacts, with the generation of NZ\$7 (HK\$38) benefits for every dollar invested.<sup>93</sup> According to an evaluation report conducted by the government, various active labour policies have contributed to a very low proportion of long-term unemployment in New Zealand. Levels of up-skilling and retraining by those already in work are also amongst the highest in the OECD countries. However, unemployment rates and incomes of youth and ethnic minorities are found to be poorer than the rest of the population, like the situation in many other economies.<sup>94</sup> According to the same report, the government is conducting a range of education reviews, including on vocational training and ethnic education, with a view to developing a long-term and adaptive education/skills approach to supporting these young cohorts.<sup>95</sup>

### Easing the burden of high housing costs on low-income households

5.9 The New Zealand government recognizes that housing affordability is an important contributor to well-being. To ease the rental burden of low-income households, the New Zealand government provides public rental housing, the rental of which is **income-based**, generally at 25% of the household income. If the household income is higher than the income threshold, additional rent will be charged. Income-based rent may be more equitable to tenants compared with a flat amount. However, in New Zealand, public rental housing rent is capped at the market rent,<sup>96</sup> meaning that high income households at most pay the market rent. Yet, tenants may be required to

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<sup>92</sup> See Beehive (2021). Amid the COVID-19 situation, the New Zealand government has committed to injecting NZ\$311 million (HK\$1.69 billion) in 2021 to expand employment support.

<sup>93</sup> See Ministry of Social Development (2019a).

<sup>94</sup> Indeed, compared with other OECD countries, New Zealand has a high proportion of young people who leave school early and do not achieve basic secondary school-level qualifications.

<sup>95</sup> See Welfare Expert Advisory Group (2019).

<sup>96</sup> It is calculated as 50% of the amount over the income threshold. Where the rent so calculated is more than the actual market rent price for the property, the tenant only pays the market rent amount.

move out if they no longer meet the eligibility, which is reviewed every three years.

5.10 As for low-income people including young singles renting a flat or house in the private market, they may be supported through a **rental subsidy** known as Accommodation Supplement.<sup>97</sup> To qualify for this benefit, the accommodation costs must be above a certain rental threshold, which differs according to the type of housing tenure, number of dependent children, etc.<sup>98</sup> The amount of rental subsidy is calculated based on geographical location, family size, accommodation cost, income and accommodation type; and is subject to a ceiling. According to an impact study conducted by the government, during September 2016, recipients were on average paying NZ\$266 (HK\$1,480) a week for housing rental, of which 31% was subsidized by Accommodation Supplement.<sup>99</sup> Though benefited over 192 000 recipients, the scheme has been criticized as not very effective in relieving the burden of high housing costs on low-income households, partly because part of the subsidy is shifted towards landlords.<sup>100</sup> Due to continued rent inflation in New Zealand, many private tenants have reportedly been in rental stress even with the subsidy. Government expenditure on this accommodation benefit is not negligible. It was projected to exceed 0.5% of GDP in FY2018-2019.<sup>101</sup>

### [Helping households get on the home ownership ladder](#)

5.11 Housing assets, nevertheless, often constitute a major part of wealth and a cause for wealth inequality in society. According to the government statistics, the fourth and fifth quintiles of New Zealand households accounted for 33.3% and 40.2% of the owner-occupied housing assets respectively (**Figure 10**). The top quintile even held 64.8% of the other real estate assets.

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<sup>97</sup> Accommodation Supplement can be used to cover mortgage and boarding cost, but the average weekly subsidy rate is lower than that for rental. According to Ministry of Social Development (2017), about two-thirds of the recipients were renting.

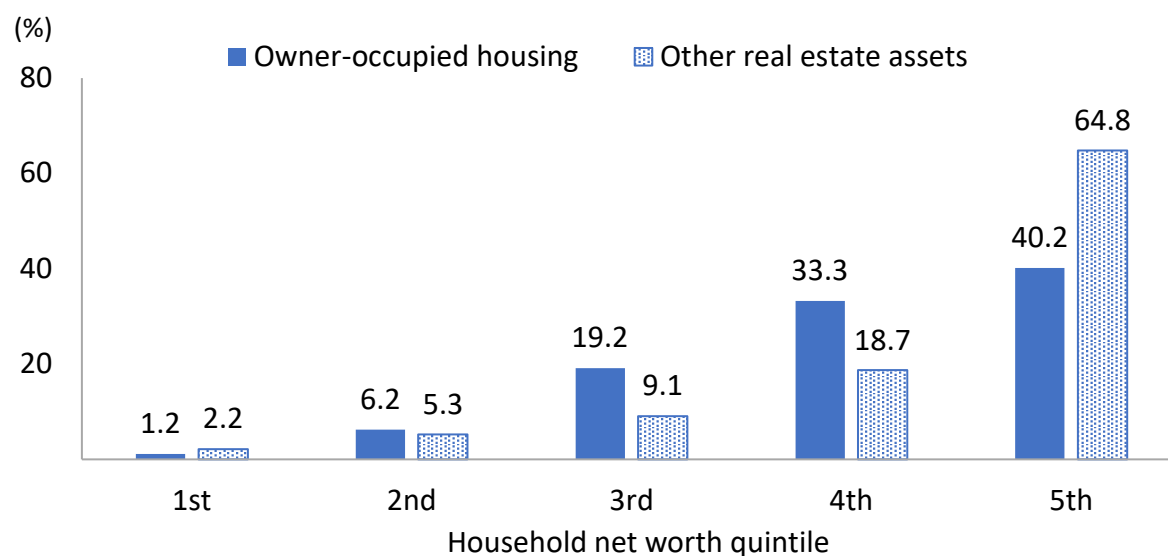
<sup>98</sup> See Ministry of Social Development (undated).

<sup>99</sup> See Ministry of Social Development (2017).

<sup>100</sup> See Carey (2015).

<sup>101</sup> See OECD (2019).

**Figure 10 – Distribution of real estate assets by net worth quintile**



Source: Stats NZ (2018).

5.12 Similar to Hong Kong, a critical aspect of the systemic housing problem in New Zealand is a lack of supply. This has driven up largely the housing prices amid growing demand. Since 2000, the housing price index has grown by about 170%, contrary to about 40% of the OECD average.<sup>102</sup> Young people are finding it hard to afford quality housing, even though they can draw on part of the savings under the national voluntary retirement scheme for their first home purchase. On the whole, only 9% and 15% of the housing assets in New Zealand were held by those aged 25-34 and aged 35-44 respectively, while over 75% were held by those aged 45 and older. Largely as a result of surging home prices, home ownership has fallen to 65% of households in 2018, the lowest rate in 70 years.<sup>103</sup>

5.13 Indeed, the New Zealand government has made multi-pronged efforts to help individuals or households get on the ownership ladder. It has been offering financial support in one form or another for eligible people on home purchase. Below is a discussion of the various initiatives:

- (a) **First home grant and loan:** the first home grant provides each eligible first-home buyer with financial support up to NZ\$5,000 (HK\$27,800) for buying an existing/older home; or up to NZ\$10,000 (HK\$55,600) for a new property. By paying an upfront

<sup>102</sup> See OECD (2019).

<sup>103</sup> See Stat NZ (2020).

of 5% (rather than the usual 20%), they can also get a first home loan.<sup>104</sup> The purchase price of the property must be **within the designated ceiling** (e.g. NZ\$625,000 (HK\$3.5 million) for existing properties in Auckland; and NZ\$400,000 (HK\$2.2 million) in other non-specified regions).<sup>105</sup> In 2020, there were over 15 000 approvals for the first home grant and over 2 700 approvals for the first home loan;<sup>106</sup> and

- (b) **Tenant Home Ownership grant:** existing tenants of state-provided public rental housing can buy their existing flats or other available social housing flats. In addition to first home grant and loan, public housing tenants can get a home ownership grant at 10% of the purchase price, up to a maximum of NZ\$20,000 (HK\$111,300);<sup>107</sup>
  
- (c) **Progressive Home Ownership scheme:** recognizing that "[u]nder-investment in housing and infrastructure in the past has made the aspiration of home ownership impossible for too many families,"<sup>108</sup> its government has newly rolled out an initiative, namely Progressive Home Ownership, to increase the support for targeted households. In 2020, it launched a NZ\$400 million (HK\$2.2 billion) Progressive Home Ownership Fund, in the first phase to support up to 4 000 low- and middle-income households to buy their own homes. The scheme is targeted at: (i) families with children, and (ii) Māori and Pacific minorities, earning an annual income of not more than NZ\$130,000 (HK\$723,400). Through partnering with community housing providers, the government offers various progressive home ownership options, including "shared ownership" and "rent to buy". The former allows a household to first purchase a majority share of a home and buy out the rest of the equity over time; whereas the latter rents a house at below market rate to families and allows them to buy it later, either outright or progressively.

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<sup>104</sup> The housing agency Kainga Ora underwrites the loan for the lender. There is an income limit for the first-time grant and loan benefits, i.e. before-tax annual income not more than NZ\$95,000 (HK\$528,500) for a single buyer, and NZ\$150,000 (HK\$834,500) for couple buyers.

<sup>105</sup> See Kainga Ora (2021a).

<sup>106</sup> See Kainga Ora (2020).

<sup>107</sup> See Kainga Ora (2021b).

<sup>108</sup> See Beehive (2020).

5.14 Shared equity arrangements on home ownership can increase access to home ownership for those with lower incomes, but it may also transfer risk away from home buyers and create greater complexity and administrative cost.<sup>109</sup> While its operation remains to be seen, the New Zealand government has since 2018 launched an ambitious initiative "KiwiBuild", a NZ\$2 billion (HK\$11.1 billion) programme that aims to deliver in 10 years some 100 000 quality homes with a price cap, with half to be built in Auckland to target mainly first-home buyers.<sup>110</sup> The annual income limits for KiwiBuild home buyers are set at NZ\$120,000 (HK\$667,600) for singles and NZ\$180,000 (HK\$1 million) for two-people or bigger households.<sup>111</sup> It is expected that about 90% of potential first-home buyers would be eligible, who are likely to be young families.<sup>112</sup> However, its government has admitted that the production target is "overly ambitious". Instead of setting a target, they have committed to building as many homes as they can with expedited development, such as through streamlining the planning and consenting process, and increasing the use of prefabrication and modular housing.<sup>113</sup>

5.15 Inadequate access to quality, affordable housing may risk a deepening of inter- and intra-generational inequalities, in particular for low-income youth who are unable to rely on family resources for support.<sup>114</sup> The above initiatives, especially the new progressive home ownership scheme and KiwiBuild subsidized housing, may to some degree improve the opportunities for upward mobility, thereby fostering harmony in society. While land shortage may be less of an acute problem compared with Hong Kong, increasing expenditures for redistribution will necessitate more government revenue. New Zealand has a tax-to-GDP ratio of over 30%, almost on par with the OECD average. Following the General Election in 2020, the governing Labour Party that won the election has kept its promise to raise the top marginal income tax rate from 33% to 39%, which is estimated to affect 2% of earners.<sup>115</sup> New Zealand has no capital gains tax, which is considered to have given rise to real estate speculation activities. However, its government has indicated that

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<sup>109</sup> See OECD (2019).

<sup>110</sup> In Auckland and Queenstown, the capped price is NZ\$650,000 (HK\$3.62 million). The capped price is about 30% lower in other cities.

<sup>111</sup> See KiwiBuild (2021).

<sup>112</sup> See Ministry of Housing and Urban Development (2021) and OECD (2019).

<sup>113</sup> See Beehive (2019a).

<sup>114</sup> See OECD (2019) and (2020c).

<sup>115</sup> See The Labour Party (undated).



it would not introduce this tax for the time being, as there was no consensus reached after significant discussion.<sup>116</sup>

## **6. Concluding remarks**

6.1 Social harmony is often contributed by a myriad of factors. One important factor is considered to be economic inequality, as a widening income and wealth gap limits opportunities available to individuals to achieve upward social mobility, thereby fuelling social tension and instability. To address income inequality, governments in different parts of the world commonly adopt fiscal tools by means of progressive taxation as well as cash and in-kind government transfers to facilitate redistribution. The effect of redistribution often depends on the mix, size and progressivity of the tax and transfer policies in specific economies. In Hong Kong, income inequality based on original household income has been at decades high. Although the strength of redistributive policies has increased since the early 2010s, there remained concerns about poverty as well as housing adequacy and affordability.

6.2 Similar to Hong Kong, Singapore adopts a low-tax model. With limited fiscal resources for extensive redistribution, Singapore focuses on providing targeted support in areas such as housing, early childhood development and employment. For example, its home ownership assistance has enabled nearly 90% of those among the poorest 20% of the population owning their homes. To tackle inequality, Singapore has also enhanced the support for children at risk of poor social and educational outcomes, primarily through early intervention programmes under the oversight of a dedicated agency and strengthening afterschool care. Meanwhile, its focus on "workfare" to help the working poor achieve upward income mobility has culminated in policies that facilitate human capital investment. These involve providing upskilling training for low-wage and/or vulnerable workers, and considerable wage support for employers to hire and reskill them.

6.3 Meanwhile, New Zealand has managed to rein in rising inequality with the aid of relatively higher taxation and transfer measures targeted at low- and middle-income groups. While some of these measures such as wage subsidies for hiring vulnerable workers resemble those in Singapore, New Zealand has pledged a focus on supporting working families with children. Extensive use of

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<sup>116</sup> See Beehive (2019b).

income subsidies to encourage low- and middle-income parents to stay employed has helped reduce inequality by effectively raising the income of the bottom 40%. Besides using housing grants to promote home ownership like Singapore does, New Zealand has experimented with various ways to ease the burden of housing costs on the poor and middle class, from providing rental subsidies to promoting alternative housing options (e.g. shared ownership and rent to buy). Recognizing that New Zealand's housing market has failed to meet the demand of first-home buyers, its government is also committed to building quality and affordable subsidized homes in an expedited way, so as to enable more households to get on the housing ladder sooner.

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## Major types of housing grants for Singapore citizen households

	CPF Housing Grant for family	Enhanced CPF Housing Grant	Proximity Housing Grant	Step-up CPF Housing Grant	Fresh Start Housing Scheme	CPF Housing grants for Executive Condominiums
<b>Flat type</b>						
New HDB flat		✓		✓ <sup>(4)</sup>	✓ <sup>(4)</sup>	
Resale HDB flat	✓	✓	✓	✓ <sup>(4)</sup>		
Executive Condominium <sup>(1)</sup>						✓
<b>Eligibility</b>						
Monthly household income ceiling	S\$14,000 (HK\$82,000)	S\$9,000 (HK\$52,600) <sup>(3)</sup>	None	S\$7,000 (HK\$41,000)	S\$7,000 (HK\$41,000)	S\$12,000 (HK\$70,000)
First-timer	✓	✓	✓			✓ <sup>(5)</sup>
Second-timer <sup>(2)</sup>						
- <i>Public housing tenant</i>			✓	✓	✓ (with young children)	
- <i>Small HDB flat owner upgrading to bigger flat</i>			✓	✓		
Planning to living with/near parents/children			✓			
<b>Amount</b>	S\$40,000-50,000 (HK\$234,000-293,000)	S\$5,000-80,000 (HK\$29,000-468,000) <sup>(3)</sup>	\$20,000-30,000 (HK\$117,000-176,000) <sup>(3)</sup>	S\$15,000 (HK\$87,000)	S\$35,000 (HK\$205,000)	S\$10,000-30,000 (HK\$58,000-175,000)

Notes: (1) It is built and sold by private developers to cater the needs of middle-income home buyers (e.g. graduates and young professionals) who can afford more than an HDB flat but find private property out of their reach.

(2) A second-timer refers to one who has previously received a housing subsidy from HDB.

(3) The amount is halved for singles.

(4) Subject to other conditions such as flat size and district.

(5) At least one applicant should be a first-timer. The grant amount is halved if the co-applicant is a second-timer.

## Appendix (cont'd)

Housing grants available for a first-timer family with a monthly household income of S\$1,500 (HK\$8,800) or less

	<b>Enhanced CPF Housing Grant</b>	<b>CPF Housing Grant for family</b>	<b>Proximity Housing Grant</b>	<b>Total amount</b>
<b>New HDB flat</b>	S\$80,000 (HK\$468,000)	N/A	N/A	S\$80,000 (HK\$468,000)
<b>Resale HDB flat</b>	S\$80,000 (HK\$468,000)	S\$50,000 (HK\$293,000) for a 2- to 4-room flat; or S\$40,000 (HK\$234,000) for a 5-room or larger flat	S\$30,000 (HK\$176,000) for staying with parents/children; or S\$20,000 (HK\$117,005) for staying near parents/children (within 4 kilometers)	Up to S\$160,000 (HK\$937,000)

Sources: Housing & Development Board (2020c) and Gov.sg (2020a).

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