

For discussion
on 13 April 2021

**Legislative Council Panel on Manpower
Subcommittee to Study the Setting Up of
an Unemployment Assistance System in Hong Kong**

**Existing Unemployment Assistance System in Hong Kong and
Government's Response to the Relevant Proposals**

Purpose

This paper briefs Members on the existing unemployment assistance system in Hong Kong and provides the Government's response to the relevant proposals on unemployment assistance.

Latest Unemployment Situation

2. The epidemic has put Hong Kong's labour market under immense pressure with deteriorating unemployment and underemployment. According to the latest figures announced on 16 March, the average unemployment rate for the period from December 2020 to February 2021 before and after seasonal adjustment were 6.8% and 7.2% respectively. By analyzing the three-month moving average unemployment rate in the past six months, the local unemployment rate surged to its peak in December 2020, and has showed a downward trend in January and February 2021.

3. On the other hand, in March 2021, the Labour Department (LD) recorded a total of 84 421 vacancies from the private sector, representing an increase of 50.1% over the figure in February 2021 and a year-on-year increase of 50.1%. In February 2021, the number of applications lodged to the Social Welfare Department under the unemployment category of the Comprehensive Social Security Assistance (CSSA) registered a monthly decrease of 26.4% and a year-on-year decline of about 5.7%. The two sets of figures are in line with

the above analysis. In anticipation of the mass vaccination to bring the epidemic under control, we can envisage the gradual recovery of the economy. We can then cautiously expect that the unemployment rate will level off or even drop.

4. We are also mindful of the shrink of working population. We have had a brief analysis over the employment figures since the outbreak of epidemic around one year ago. Among the decreased labour force, about 20% is attributable to a decrease in the number of foreign domestic helpers (FDHs). Meanwhile, some young women not employing FDHs have stayed at home. Another group of leavers from the labour force are young people. While there is a higher portion of young people pursuing their studies, there is a substantial drop in the percentage of full-time students taking part-time or full-time jobs. These lead to a decrease in the percentage of working young people. Besides, some workers used to live in Hong Kong and commute to the Mainland for work are no longer residing in Hong Kong, and so are no longer counted as our working population. In the statistical analysis, the aforesaid disregarded workers would lead to a decreased working population and an increased unemployment rate. We however observe that, in 2020, there is a slight increase (instead of a decrease) in the labour force participation rate of people aged 60 or above.

Existing Unemployment Assistance System in Hong Kong

5. Many opined that Hong Kong lacks an unemployment assistance system. As a matter of fact, the Government introduced the Public Assistance Scheme (now known as the CSSA Scheme) in 1971 to provide cash assistance for families in financial need, including the unemployed. The Government introduced under the Employment Ordinance severance payment (SP) in 1974 and long service payment (LSP) in 1986. The Employees Retraining Board (ERB) was established in 1992 to offer training and training allowance to employees with employment needs or re-entering the market. In this light, the safety net provided by the existing CSSA Scheme, having regard to the adjustments and improvements over the years, have constituted the prevailing three-tier unemployment assistance system, providing financial assistance for families who are unable to maintain a basic living due to lack of financial means during unemployment.

6. The Research Office of the Legislative Council (LegCo) Secretariat has earlier submitted to this Subcommittee a research note with presentation materials on the Unemployment Insurance Systems in Selected Places (the LegCo Secretariat's Research Note), which cited a study by the International Labour Organization in 2019 stating that the median SP in developed economies amounted to less than 10% of the monthly salary. In Hong Kong, if an employee who has been employed under a continuous contract is dismissed and meets the specified conditions and the qualifying length of service, he/she is entitled to SP or LSP amounted to two-thirds of his/her monthly salary. This amount was 6.5 times more than the median SP in the aforesaid economies. Such information explains the following: firstly, while there are both unemployment insurance (UI) and SP systems in many developed economies, Hong Kong only has SP/LSP system; and secondly, the SP/LSP level in Hong Kong far exceeds that of other economies. By studying more thoroughly, we can come to the conclusion that the SP/LSP level in Hong Kong is higher than the aggregate level in many developed economies which both UI and SP exist. As a result, the assistance offered to the unemployed or their families is not worse off than these economies.

7. In a nutshell, Hong Kong, being a low-tax regime, our social security system is not inferior to its counterparts. Totalling over \$100 billion, the estimated recurrent expenditure on social welfare for Financial Year 2021-22 represents an increase of 61.7% over the actual recurrent expenditure in 2017-18, making social welfare the largest recurrent expenditure item among all policy area groups. This has reflected the Government's efforts in the past few years. That said, the Labour and Welfare Bureau (LWB) will sustain its efforts to introduce further improvement.

Government's Strategy and Related Measures in Response to the Expanded Unemployed Population

8. The Government has been adopting a multi-pronged strategy to help local workers and the grassroots out of their plight, including creating more job opportunities, helping employees' upskilling or developing new skills, enhancing job matching services for employers with recruitment needs and job

seekers, and providing financial assistance to the financially needy unemployed and their families.

9. Through the Job Creation Scheme under the Anti-epidemic Fund, the Government will create around 30 000 time-limited jobs in the public and private sectors in two years' time for people of different skill sets and academic qualifications, especially new graduates, to relieve the worsening unemployment due to the epidemic. Moreover, the 2021-22 Budget announced the allocation of an additional \$6.6 billion to create around 30 000 more time-limited jobs.

10. The Chief Executive also announced in the 2020 Policy Address that the Government will create more sector-specific job opportunities which are particularly suitable for graduates in recent years. Sectors like the green industry, construction industry, innovation and technology industry, property management industry, creative industries and legal profession are covered. In addition, the 2020 Policy Address also announced the launching of the Greater Bay Area Youth Employment Scheme to encourage and assist young people to seize the career development opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area. To encourage employers' engagement of youth pursuing professional qualifications, the Vocational Training Council and the Hong Kong Institute of Engineers jointly organize the Engineering Graduate Training Scheme, which provides salary subsidies for employers of graduates. Similar schemes are now offered to aspiring architects, surveyors, bank practitioners and green professionals by the Development Bureau, Financial Services and the Treasury Bureau and Environment Bureau.

11. ERB launched three tranches of the Love Upgrading Special Scheme between October 2019 and January 2021 to provide training and allowance for trainees affected by the economic situation; since then 40 000 training places have been provided. Following the completion of the third tranche of the Scheme in June this year, ERB will launch the fourth tranche in July for six months until the end of this year, benefiting an additional 20 000 trainees. The Scheme imposes no restriction on education attainment, i.e. covering trainees who have bachelor or even doctoral degrees. Trainees enrolled in part-time courses under the Scheme are also eligible for training allowance. The statutory cap of training allowance has been increased from \$4,000 to \$5,800 per month. ERB will persistently enhance the Scheme by providing more

training options and more online courses for trainees to engage in distance learning during the epidemic, and will expand the First-Hire-Then-Train Scheme. Moreover, the LD has raised the cap of on-the-job training allowance for employers under the various employment programmes, and is, in addition, providing retention allowance to employees concerned on a pilot basis.

12. To assist the unemployed and their families who face immediate financial difficulties in a more focused manner, the Government has launched the time-limited ‘Special Scheme of Assistance to the Unemployed’ (the Special Scheme) under the CSSA Scheme to temporarily relax the asset limits for able-bodied persons by 100% for one year from June 2020 to May 2021. Furthermore, the Government has implemented another time-limited new arrangement under the Special Scheme for six months from April to September 2021. Specifically, the cash value of insurance policies of able-bodied CSSA applicants will not be counted as assets during the grace period of one year.

13. The Finance Committee (FC) of the LegCo approved on 26 March 2021 the provisions for the Government to implement another time-limited special relief measure under the Working Family Allowance (WFA) Scheme, that is to reduce the working hour requirement for non-single-parent households for the claim months of June 2021 to May 2022 (including a substantial reduction of the basic working hour requirement by half from the current 144 hours per month to 72 hours per month, and that for Medium Allowance from 168 hours per month to 132 hours), so that more low-income households can remain to be eligible for the allowance despite a decrease in the aggregate working hours of household members. The FC also approved to relax the asset limits for the Short-term Food Assistance Service Projects temporarily by pitching them to those of the WFA Scheme for 12 months, so as to provide additional support to individuals and families facing financial difficulties. This arrangement could also be implemented in June 2021 at the earliest.

14. In addition, the FC approved on 26 March 2021 the provisions for setting up a time-limited 100% Personal Loan Guarantee Scheme with a total commitment of \$15 billion and an application period of six months with a view to supporting unemployed in need to tide over.

Proposals of Setting Up of Emergency/Temporary Unemployment Assistance Fund

15. The LWB has taken note of the various proposals and discussions of stakeholders about setting up an emergency or temporary unemployment assistance fund. It is noteworthy that the discussion has yet to come up with a clear definition of whether the term “temporary” refers to the time limit for a recipient to receive the assistance or that for implementing the fund. If the fund is implemented with a time limit of, say, six months, recipients may not necessarily receive the assistance for the whole six-month period. To illustrate, an unemployed person applying for the assistance in the sixth month upon the fund’s establishment will only receive the payment of one month. There are also proposals on introducing an expenditure cap (say \$15 billion) on the fund. Such proposals with time limit or expenditure cap will be neither practicable nor policy-wise justifiable. Setting up a time-limited “temporary unemployment assistance fund” may in a way encourage people to quit their jobs as early as possible in order to be eligible for the assistance.

16. On the contrary, if the term “temporary” denotes a maximum of six months for a recipient to receive unemployment assistance, then the fund will have to be a de facto “perpetual” one. This kind of “temporary” proposals usually suggest discontinuing the assistance when the unemployment rate drops to a certain level. With the benefit of historical unemployment trend, we can see that during the outbreak of the Severe Acute Respiratory Syndrome (SARS) in 2003, the three-month seasonally adjusted unemployment rate increased to the peak of 8.5% in April to June 2003. Not until after 2 years and 11 months, i.e. in March to May 2006, the figure fell to 4.9%, and after 4 years and 5 months, i.e. in September to November 2007, that it fell below 4%. The local unemployment rate still failed to recede to 3%, a level corresponding to theoretical “full employment”, when the financial tsunami hit us in 2008, and even reached 5.5% in June to August 2009. It was not until September to November 2017, i.e. after 14 years and 5 months, that the unemployment rate of 3% was eventually achieved. As the global impacts arising from the COVID-19 epidemic are yet to subside, it will be difficult to make an optimistic estimate at this stage on whether the local unemployment rate will fall below 5% in three years just as it did after the SARS outbreak. In this light, such form of unemployment assistance system would bring extremely far-reaching burden and implications to the public finance.

17. Apart from the above, there is suggestion of allowing the unemployed to apply for CSSA on an individual basis. LWB would like to reiterate that such a precedent social policy direction will not only prejudice our entire welfare system, including policies pertaining to social security, education, healthcare and public housing, but also undermine the prevailing familial function of mutual assistance among family members. This change in social policies may bring about irreversible disruption to family system which is the very foundation of future society.

18. The suggestion of lowering the working hour requirement for the Higher Allowance under the WFA from 192 hours to 72 hours is not acceptable to the Government. The WFA is fundamentally designed to reward hard work. Higher level of monthly working hours of the applicant's family will lead to a higher amount of allowance under the three-tier system. An average of some 44 working hours per week will meet the monthly requirement of 192 hours. Lowering the working hour requirement for the Higher Allowance to 72 hours will defeat the original purpose of the WFA Scheme. Similarly, the suggestion of increasing ERB's statutory cap of retraining allowance to \$9,000 per month has deviated from the original intention to help trainees meet the travelling and meal expenses arising from attending retraining courses and is even twisting the retraining policy. The Government could hardly adopt the suggestion.

Lessons Learnt from International Experience

19. As pointed out in the LegCo Secretariat's Research Note, no economy studied has put in place a non-contributory and non-means-tested public unemployment assistance system. The report has also quoted some studies which revealed that 30% of the unemployment in the United States (US) was due to UI benefits. During the COVID-19 outbreak in 2020, the unemployment rate in the US rose sharply from 4.4% in March to 14.7% in April. Many unemployed workers spent over a month in vain trying to approach the relevant agency to apply for UI. Despite that fact that the US has a contributory UI system, moral hazard is still a major concern. Under a non-contributory and non-means-tested system, the moral hazard would be even higher and may drive the unemployment rate significantly.

20. There are views that under such exceptional circumstances where unemployment is exacerbated by the epidemic, the Government should make exceptional arrangements to deal with the issue, with reference to many other economies where adjustments have been made to the unemployment assistance systems during the difficult times. According to the LegCo Secretariat's Research Note, the temporary measures taken by these economies during the epidemic are founded upon their existing unemployment assistance systems. These measures mainly include the time-limited relaxation of the criteria for claiming UI benefits, the maximum number of months or weeks for claiming UI benefits, or the maximum level of claimable UI benefits. The strategy adopted by the HKSAR Government is not different from its counterparts, i.e. founded upon the existing unemployment assistance system, including the targeted temporary relaxation applied in the ERB's Love Upgrading Special Scheme, CSSA and WFA.

Conclusion

21. The COVID-19 epidemic has presented unprecedented challenges to the economy of Hong Kong and people's livelihood. The Government will put in extra efforts to contain the epidemic and revive the economy, and at same time support the grassroots by creating more jobs, increasing training and retraining opportunities and providing financial support as appropriate. Members and stakeholders are welcome to, having considered the pros and cons of overseas experience, make further policy recommendations on how a system that suits the situation of Hong Kong and benefits its long-term socio-economic development could be set up.

Advice Sought

22. Members are invited to note the contents of this paper.

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