

## **Income Distribution of Hong Kong and the Gini Coefficient**

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Income disparity in recent years has aroused increasing public concern and discussions, and many comments/commentators are using the Gini Coefficient to illustrate the situation. Income distribution is a complicated subject. The aim of this article is to give a simple but comprehensive analysis of the income disparity in Hong Kong and the causes for that disparity.

### **The functions and limitations of the Gini Coefficient**

The Gini Coefficient is a figure indicating the general distribution of income, calculated from household income data. If income of all households is at the same level, the Gini Coefficient will be zero whereas it will be one if all the income of all of society goes solely to one household.

The Gini Coefficient is widely used because of its simplicity but it can easily lead to misunderstandings. One of the most fundamental and common misunderstandings is that if all household income is at the same level, then the distribution of income will be equal. As the household size, the number of members working, the age distribution of members, and education attainments, vary among households, such a phenomenon is also very unfair.

### **Impact of the change in household size on income disparity**

Big families were common in Hong Kong in the past. But nowadays, there are many small families, leading to a continuous decline in average household size. This tends to reduce household income. The upsurge of elderly households has led to a rapid rise in the number of low-income families. Many old people are living separately from their children. Many of them are supported by their savings and their children, with social security allowance as subsidy. If these elderly people are still living with their children or grandchildren, they will not statistically be counted as low-income families.

### **Impact of higher education and professional level on income disparity**

Hong Kong's economy is continuously restructuring towards higher value-added activities, and is creating many high-income jobs in the process. As the number of people with tertiary education and workers at supervisory and professional level grows, income distribution in Hong Kong is affected:

- (1) The income disparity between high-income and low-income jobs is widening.
- (2) The proportion of high-income workers increases and this leads to an increase in the value of the Gini Coefficient.
- (3) The income disparity among high-income earners is larger than the gap among the lower-skilled workers.
- (4) On average, the income of lower-income workers will gradually decrease when they reach middle age, but the income of middle-aged workers with higher salaries will continue to increase. As a result, income disparity in Hong Kong will widen with the ageing of the population.

### **Impact of the prolonged economic downturn during 1998-2003 on income disparity**

Unemployment, underemployment and pay cuts were more common among low-income earners than the higher income earners during Hong Kong's economic downturn, hence widening the income distribution gaps during this period. Nevertheless, the economic rebound since 2003 has resulted in increasing employment opportunities for the lower-skilled, hence income of a lot of low-income earners has also improved.

### **The role of the government in income redistribution and the Gini Coefficient**

The Government provides various services in education, medical care, housing and CSSA, and these services redistribute income. Income tax and property tax also serve the function of income redistribution. After taking into account the redistributive effect of these services

and taxes, the household income of a large majority of families in Hong Kong, including many “middle class families”, would be higher.

Comments that make comparisons between Hong Kong’s Gini Coefficient and overseas data often forget that the definition of data varies in different places. For instance, the Gini Coefficient published by Hong Kong was based on income data that mixed the general household income with CSSA receipts without deducting income tax. The income data used by many other places is derived after deducting different types of taxes. Some economies also take into account the impact of the Government’s functions of income redistribution in arriving at their figure. In the circumstances, direct comparison between Hong Kong’s Gini Coefficient and those of overseas places may result in a wrong conclusion.

### **Conclusion**

Analysis of the household income distribution of Hong Kong and the Gini Coefficient must take into account the social and family structure, ageing population, economic and other factors before practical conclusions can be drawn. For instance, if the increase in the number of low-income families is mainly caused by the increase in elderly families, then the Government will have to consider what would be a more effective means to improve the living standard of low-income families. Should it be the adoption of a wage policy or the provision of retirement protection and other services for the elderly?

The Census and Statistics Department is actively working on the 2006 Population By-census results and is conducting an in-depth study on this data and other related statistics with a view to releasing more detailed analysis on this subject. However, given the complexity of the issues and the time needed to analyse the data, we expect that findings will be available by the middle of this year for publication for public reference.