

Privatization of social welfare services in hong kong society essay sample

[Finance](#), [Investment](#)



The Link-Reit (Real Estate Investment Trust) has long been a controversial issue ever since its launch. The issue in fact concerns the privatization of welfare services. The purpose of this paper is to review the worthiness of privatization in the midst of conflicts of interests among different groups of people in Hong Kong. For a start, the definition of privatization of welfare services will be stated. Then, there would be a brief summary on the privatization development in Hong Kong. As this paper will focus on discussing privatization by using the Link-Reit as an example, the background information of Link-Reit will be given. The merits and demerits of privatization of social welfare services will be reviewed in the context of the Link-Reit. Eventually, recommendations regarding the disadvantages of privatization will be given. The scope of privatization to be discussed in this paper will be confined to privatization of public housing.

DEFINITION OF PRIVATIZATION OF WELFARE SERVICES

Privatization of welfare services is defined as the transfer of the provision of welfare services from the public sector to the private sector. Le Grand & R. Robinson (1984) pointed out that any reduction of the roles of the government in welfare provision, such as direct provision, subsidy and regulation, is defined as the introduction of the process of privatization of welfare services. It is a way to enhance the equitable distribution of social resources. A. Walker (1984) stated that privatization takes place when responsibility for a service or a particular aspect of service delivery passes wholly or in part, to the private sector and when market criteria, such as profit or ability to pay, are used to ration or distribute benefits and services.

Asher (1987) is in support of the rationale behind privatization, which is to improve efficiency and reduce public cost because private sector has greater market competition. In fact, it would be difficult to give privatization a universal definition. However, one common idea about privatization is that there is a decrease in role of the government while there is an increase in the role of private sector in the provision of welfare services. (Leung, 2006, p. 8).

PRIVATIZATION DEVELOPMENT IN HONG KONG

As a matter of fact, privatization is a common tool for governments all over the world to reform the public sector (Leung, 2006, p. 7). The trend of privatization in the economy of Hong Kong starts from the late 1980s. In 1987, the Housing Authority announced the Long Term Housing Strategy (LTHS) which shifted from providing large-scale public rental housing to assist home ownership and expand the role of the private sector in housing provision (HKHA 1987). The public housing development has entered an age of privatization and the public housing policy has shifted from the provision of public rental housing to owner-occupier housing (Poon, 2004). It was expected that there would be a decrease in the overall demand for public rental housing (PRH) and an increase in the demand for self-owned, self-contained housing units due to economic growth and social stability in the years to come.

The Housing Authority (HA) has implemented three major privatization schemes, the Home Ownership Scheme (HOS), the Private Sector

Participation Scheme (PSPS) and the Home Purchase Loan Scheme (HPLS). HOS was introduced in 1976 which comprises the construction of flats for sale to eligible households (La Grange, 1997, p. 73). PSPS was introduced in 1978, which is a joint venture development between the public and private sector. The public sector procures a number of housing units at scale from the private sector at a guaranteed price, for resale to eligible households (La Grange, 1997, p. 74). The HPLS was introduced in 1987. In the context of the scheme, the Housing Authority proposed to expand its efforts to privatize public housing by providing eligible households with an opportunity to buy flats of their choice in the private sector, using an interest-free loan from the HA to meet the deposit and other up-front charges.

It provided for an interest-free loan to assist eligible households to meet the down-payment on a small to medium-sized domestic flat in the private sector (La Grange, 1997, p. 75-76). Sale of Flats to Sitting Tenants Scheme (SFSTS) was introduced in 1991. The proposal states that about five-year-old flats were to be considered for sale to overcome the two major barriers to home ownership: the high price of private sector dwellings and the limited stock of HOS/PSPS flats relative to demand (La Grange, 1997, p. 77). Tenants Purchase Scheme (TPS) was another scheme announced in December 1997, offering tenants an opportunity to buy their units at deeply discounted prices, reduced public housing tenants' bids for private homes. However, this adversely affected home transactions. Moreover, the Housing Department started to contract out estate maintenance management services to Property Management Agents in private sector from 1987.

All these schemes have successfully encouraged private sectors to participate in housing except SFSTS which was proved to be a failure under such a harsh requirement and merely 3000-4000 five year old flats were sold under the scheme in first year operation (La Grange, 1998, p. 512).

BACKGROUND OF LINK-REIT

The Link-Reit is managed by the Link Management Limited and is a public company enlisted in Hong Kong Stock Exchange with clear dividend policies. It was originally sold through initial public offering to general public and financial institutions (Chan, 2006). The assets transferred to the Link-Reit are mainly located within housing estates and the target customers are the tenants at the nearby estates (The Link Management, 2005). It should be noted that the Link-Reit cannot engage in property development or speculative investments (HKSAR, 2004). It is a divestment scheme, as opposed to an investment scheme, which involves a sale and transfer of ownership of 180 properties, primarily shopping centres and car parks from the government to private sectors. The Link manages 9.1 percent of Hong Kong total retail space and 13.7 percent of total commercial car-parking spaces, serving over 40 percent of the Hong Kong population.

MERITS

According to La Grange (1997), financial considerations and ideology and politics are the aims of privatization. Financial considerations refer to a desire to raise revenue from the sale of state-owned assets, and/or to reduce government expenditure or debt (La Grange, 1997, p. 18) while ideology and

politics refer to beliefs about the relative efficacy of the public and private sectors in the provision and production of goods and services, as well as the perceptions towards the political implications of privatization. These are the core values behind the pros brought by privatization. Apart from the above, factors like customers' considerations and market development in Hong Kong are also important. Together they constitute the framework of the following discussion of merits of the privatization of Link.

ALLEVIATE THE GOVERNMENT'S FINANCIAL BURDEN

The major cause of the HA to privatize the shopping malls and car-parking facilities is because of its acute financial deficit (Chan, 2006). In view of a drastic increase in income due to the stoppage of selling flats under the Home Ownership Scheme and frozen rents due to economic downturn, the HA's plan to build 66700 units of public housing with \$23.6 billion was in doubt. Boston (1998)'s idea also supports the role of privatization in relieving the government's financial burden. He contended that privatization would reduce the country's international indebtedness and reduce government debt by selling state-owned assets/enterprises and with the privatization of government services, the financial burden of government can be lifted (Boston, 1998). Actually, the operating deficit of the rental housing business increased from \$660 million in 1996/97 to \$1979 million in 1998/99. The government's financial burden can be relieved by increasing income and reducing expenditure respectively.

Firstly, to increase income, \$32 billion is reaped from the privatization of Link. The privatization can also generate tax revenues from private companies which pay taxes and license fees whereas government units do not (Fan, 2005, p. 19). New tenancy agreements granted by the Link-Reit will be subject to stamp duty, which will generate income too. The above prove that the sale of state-owned enterprises and public dwellings could generate significant revenue as well as reducing the burden of public ownership of such assets (La Grange, 1997, p. 28).

Secondly, concerning expenditure reduction, government's administration cost for the shopping malls and car park would be removed as Link-Reit would be responsible for the risk of finance, construction and operation of facilities. On the other hand, the privatization removes the government's duty to provide subsidies such as rent relief measures during economic downturn. The government's maintenance cost of the infrastructure and construction projects on relevant facilities can also be removed (Chan, 2007, p. 27). Besides, public expenditure can also be reduced as fewer civil servants are employed. Bailey (1995) pointed out that privatization can cut down the operating cost and relieve the financial burden of the Housing Authority.

POLITICAL ADVANTAGES TO THE GOVERNMENT

According to Madsen Pirie (1998), when a state industry is privatized, it is depoliticized to a great degree and goes commercial. Chiu (1994) stated that political factor is the major reason for a government to privatize its activities

while Wiltshire (1987) contended that privatization would free the government from continuous intervention and fluctuating political pressure. Therefore, the political benefits to the government can be viewed in two aspects, which are the decrease in liability for provision of services and better allocation of resources.

Reducing the government's political pressure

People seek out and use consumer rights when they feel let down, rather than attempting to gain satisfaction through the political process (Leung, 2006, p. 10). The privatization actually removes the government's liability for providing services. Political pressures arising from housing provision is reduced to a large extent.

Better allocation of resources

The government also minimizes its intervention in the market and thus fulfills its principle of "big market, small government". It is able to spend resources on policy decisions instead of service delivery. Privatization allows governments to concentrate on governing. It releases the government's administrative and policy-making talents for the jobs they are fit for. It also reduces government's time and resources by replacing some of the government activities with private ones (Leung, 2006, p. 12). Hence, government officials can concentrate on its core business (i. e. from services provider to facilitator) and its transparency and popularity can be increased (Hodge 2000). Therefore, resources can be allocated in a better and more

efficient way. The above demonstrate the possible beneficial consequences of depoliticizing a state industry.

CUSTOMERS CONSIDERATIONS

Market competition is often a primary objective of privatization (OECD 2000). Besides, Savas (2000) pointed out that competition is itself the key ingredient for successful privatization. As Poon (2004) observed that many of the complaints from the tenants were about the inflexibility, poor services and building management quality provided by the HA, competition acts as a drive for the private sector to perform better by all means such as improving service quality, improving management and lowering prices, etc. in order to raise customers' satisfactions.

Improving the service quality

In a very competitive market, other than lowering the price, different companies in the private sector would try to boost their goods' quality and service's standard in order to gain the customers' satisfaction of (Leung, 2007, P. 27). Former Chief Executive So Hing-Who of Link-Reit said heavy investment was made to renovate shopping centres to improve the condition of properties and to provide daily maintenance work, such as electrical engineering and installation works (The Link Management, 2005). A wider variety of shops are introduced into the shopping malls under Link-Reit, which provides customers with more choices in reasonable prices. In this way, better services enhance rental potential of properties which

increase the number of customers and gain support from commercial tenants in the long term (SCMP, Jan 31, 2007).

Enhancing economic efficiency

It was common to see that state-owned enterprises were relatively inefficient, loss-making, over-manned and unresponsive to market changes (Leung, 2006, p. 11). Savas (2000) observes that the common lack of managerial skills in government results both from the appointment of people whose onus qualifications are political and from the persistence of relatively low salaries for upper management level compared to the private sector.

On the contrary, no bureaucracy exists in private sector. The managers in private sector can make the most efficient use of their experience for production without any public and political pressure (Leung, 2007, p. 26).

Leung (2006) stated that private authorities will be better able to compete and attract high quality managers after introducing market forces to the industry. On the other hand, Fan (2005) stated that private forms can change companies' objectives and standards in response to meet the public needs within a short period of time. Thus, private authorities are getting more and more competent. All the above factors contribute to improvements in the overall performance in the provision of services by Link-Reit.

ATTRACTING AND BOOSTING INVESTMENT

Divestment helps stimulate investments and boost economic growth, as demonstrated by divestment schemes in Britain, Japan and Singapore, which

made good performances and generated revenues. It promotes development in stock market and provides chances for investors to participate in the ownership of rental facilities (The Link Management, 2005). As Link-Reit is the largest real estate investment trust in the world, it can attract foreign investments if it is operated smoothly and successfully. Besides, there are more investment vehicles that stimulate capital markets and promote liquidity and job creation. The good performance of Link-Reit can promote the economy and the status of HK as the third financial centre in the world.

DEMERITS

CREATING MORE SOCIAL DIVISION AND CONFLICTS

The proposed divestment was challenged by two housing tenants Lo Siu-lang and Ma Ki-chiu, a public housing tenant on grounds that the Housing Authority has violated the Housing Ordinance. The proceedings caused a delay of the listing of Link-Reit for a year and reflected the general concern among public housing tenants that existing amenities may no longer be public and Link-Reit may raise prices without considering public interest (The editorial of Ming Po, 2005). This illustrates the clearly divided interests amongst the shareholders and the public housing tenants. Besides, the housing tenants would worry about the raising price of goods and services of those facilities under the management of the Link-Reit which is working under the market principle. It easily leads to a risk of litigation.

In fact, the increase in rent is not only a public worry but it is a reality. For example, starting from 1 September 2006, the car parking fees have

increased rapidly for 7-8% at 58 out of a total of 178 car parking facilities and this average increased fee ranged from HK\$30 to HK\$130 (Sing Tao Daily, 29 July 2006). Patients who attend doctors' clinics at public estates may face higher fees after four medical groups agreed to pay market rentals for more than 300 clinics at premises operated by Link. 10 members of the Practising Estate Doctors' Association have closed their businesses and four have moved out of estates because of the higher rental. Big medical chain groups will take advantage of the market rent policy and is likely to provide less-than-satisfactory services with higher charges. The Hong Kong Doctors' Union vowed to stick to its plan to strike in a bid to get The Link to reduce rents (SCMP, 4 November 2009).

However, the discretionary power vested in The Link provides little room for ordinary tenants to bargain. In April 2009, more than 100 public housing estate residents and retailers have staged a protest in Wan Chai against rent increase proposed by the Link-Reit. Defending against the indictment of continuous rental increase, management of the Link-Reit suggested that enhanced rental potential and improved overall commercial attractiveness are the reasons causing increasing rent, but it seems that tenants are not convinced by the reasons at all.

MONOPOLY OF BIG BRAND-NAMED ORGANIZATIONS

Chan (2007) criticized that big brand-named chains which can dominate the markets with its financial strength are likely to monopolize the market. The trend of monopoly has already been observed soon after the listing of Link-

Reit. According to Link-Reit's Annual Report in 2006, the management contracts have been dominated by top five contractors which amount to \$86 million of business during the listing period (The Link Management, 2006). Big brand-named companies are more favoured than small to medium sized shops. The housing estate's market is, as a consequence, monopolized by large corporations such as Wellcome, ParknShop and Café de Coral which inevitably pressurize other medium shops (Ho, 2005). It leads to a lack of competition in the market, which is an unhealthy phenomenon. The access to traditional shops is being limited. Not only the choices offered to customers are narrowed, but the long-established social network between traditional shops and customers has also been broken.

LACK OF PUBLIC ACCOUNTABILITY

It is stated that the foundational values including accountability, representation, equality, and justice of government will be replaced by pro-market values such as efficiency and productivity (HAQUE, 1997). Inevitably, the Housing Authority will reduce its public accountability as the facilities are within the portfolio of the Link-Reit. As profit-maximization is the main objective of private sector, the Link-Reit has been neglecting its social responsibility throughout the years as reflected by many evidences.

Before the divestment, Link-Reit had promised that privatization would not lead to unemployment of non-skilled workers and workers' rights would be protected (SCMP, 6 June 2006). However, after six months from the listed period, the Link-Reit cut one-third of its frontline non-skilled workers, which

means 1400 out of 5500 unskilled jobs have been removed. Moreover, the management announced that 3000 security guards and cleaners' contracts would be terminated (SCMP, May 2006). On the other hand, Link-Reit does not devote much money on improving the safety equipment and working environment. For example, the number of working hours of workers in Tai Wo Shopping Centre had been increased from eight hours to ten hours per day while their wages were reduced. When workers took leave, they were asked to pay substitute workers salaries at a daily rate of HK\$200.

Also, the wages of non-skilled workers in retail malls in Tseung Kwan O were found to be reduced from HK\$5, 055 to HK\$4880 (Legislative Council, Panel on Manpower, LCPaperNo. CB(1)2209/05-06)). Labour exploitation by the system of sub-contracting is another noteworthy issue. Although the Housing Department has frequently carried out spot check on their performance, the sub-contractor's performance is difficult to control (Leung, 2007, p. 93). Despite the many problems arose, complaints are handled in a slow manner. It is difficult for the government to intervene in Link-Reit's decisions as the shares held by the public sectors are just minority.

TURNING WELFARE TO PROFIT-MAKING

The process of privatization will mean the change of service-orientation to market-orientation. Welfare services are shifted to private sectors in order to save cost. The Housing Authority used to provide venues for non-governmental organization free of charge to organize charitable, civic education or other community-building activities. However, the transfer of

assets to Link-Reit allows itself to be profit-orientated and it can give priority to organizations that can afford the market prices (Legislative Council, LC Paper No. CB(1)2209/05-06). La Grange (1997) emphasized on equity considerations as one of the objectives of privatization. For example, subsidies should be rationalized by re-orientating resources from wealthier beneficiaries to the poorer and disadvantaged groups. However, the outcome in the case of Link-Reit is contrary to such an objective. Link-Reit apparently fails to achieve the redistributive effect of social welfare policy.

CONCLUSIONS AND RECOMMENDATIONS

Public Housing policy should be people-oriented, meeting people's need as its first priority. It should never be overridden by market consideration. Only by establishing a responsible government can a mature civic society be achieved. Therefore, despite upholding the principle of "big market, small government", the government should take a more active role in ensuring welfare is sufficiently provided to the needy people in society.

The Link-Reit is still far from being a perfect policy. In fact, a lot of improvements can still be made. Despite the possibility that the privatization might enhance public resources allocation, whether it is fulfilled in reality remains in doubt. The closing down of many traditional shops in the Link-Reit case, however, causes disappointment and even discontent among the public. This makes the government's capability to appropriately provide welfare questionable.

Communication between private authorities and tenants should be enhanced in order to resolve social conflicts. Though the private authorities should also bear a corporate social responsibility (i. e. when they make business decisions, they should take into account their social and environmental impacts instead of solely economic benefits), the responsibility of the government should not be shed. The role of government as an effective monitor should be strengthened.

For example, the Housing Authority may step in if a threshold of number of complaints is exceeded. The government may take an active role to motivate this by giving incentive bonus or accredit the private authorities extra scores for completing planned maintenance on time, reducing complaints from tenants, etc., as similar to handling other PSAs (Leung, 2006). In addition, as suggested by Fan (2005), it is necessary to conduct an annual customer satisfaction survey in each management model so that they can make necessary improvement to their management services (Fan, 2005, p. 90). The government may boost the conduction of the annual customer satisfaction survey.

The government may also consider cutting the percentage of Link-Reit shares reserved for preferred international “ basic” investors so that more shares can be allocated to local retail investors and mandatory provident fund management companies. This can restore wealth to the people by increasing the proportion of citizens directly or indirectly holding Link-Reit shares. As investors are more familiar with Link-Reit, this is a suitable timing

for more Link-Reit shares to be allocated to the public (The editorial of Ming Pao, 7 September 2005).

The authorities should consider offering favourable terms to encourage citizens to subscribe to the Link-Reit, thereby eliminating the risk of litigation. The investors can be more fully aware of the risks involved when plans for compensation and restoration in litigations against the Housing Authority are made public in advance. Additional returns proportional to the risks can be offered to retail investors so as to boost the subscription (The editorial of Ming Pao, 7 September 2005).

Many public organizations, such as Link-Watch, urged the government to consider buying back some shares of the Link to monitor its operation for public interest (SCMP, Jan 31, 2007). This alternative method has been successful in MTR Corporation's example. This can better balance the interests of public housing tenants and shareholders' interest by having the government to hold a strategic portion of share instead of selling off entire holdings (SCMP, April 28, 2007).

Deliberation should be done to assess the impact of the new policy on public interests before introducing it. Wide consultation of the public and experts is desirable to ensure different people's opinions are to be heard so as to promote social integration. Only by doing so can a policy satisfy people's need.

To conclude, the government should pay more effort to improve the existing privatization of social welfare services policy in Hong Kong by seriously considering every possible method to achieve this.

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