

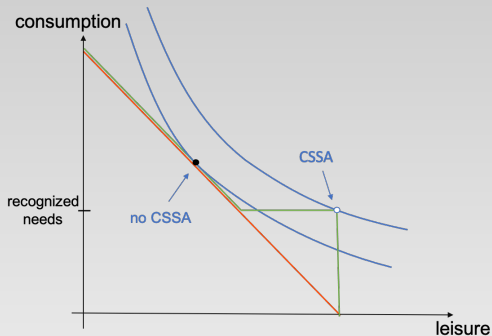
The Welfare System

Hong Kong

- The main social welfare system in Hong Kong is known as the **Comprehensive Social Security Assistance** (CSSA) scheme
- Applicants must pass both income and asset tests. For a family of four:
 - asset limit is HKD 84,000
 - household income is less than **recognized needs** (standard rate at about HKD 7815 per month, plus supplements and special grants)
- **Disregarded earnings:**
 - first \$800: 100%
 - next \$3,400: 50%
 - maximum disregard is \$2,500 for people earning \$4,200 or above
- CSSA payment =
Recognized needs – Assessable income (after subtracting earnings disregard)

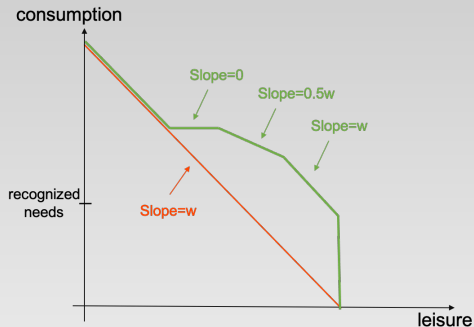
Work Disincentive

- A person who otherwise could be earning more than recognized needs may be better off opting for CSSA by not working



Disregarded Earnings

- Implicit marginal tax rate is 0% for first \$800, 50% for next \$3,400, 100% for further earnings up to recognized needs

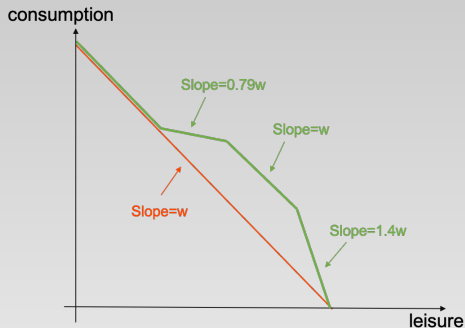


Universal Basic Income

- **Universal basic income** (everyone receives a fixed unconditional transfer from the government) does not have such strong work disincentive effect
- It has some work disincentive effect because leisure is a normal good
- It is untargetted and can be very expensive—increased taxes needed to raise revenue for this program can have strong disincentive effects

Earned Income Tax Credit

- The EITC is the largest cash-benefit entitlement program in the U.S.



- The first \$11,000 earned is subject to a **negative income tax** of 40% for low-income households

Effects on Labor Participation

- Enhance labor participation: work if $MRS(y_0/P, T) < W/P$.
 - EITC does not increase $MRS(y_0/P, T)$ (unlike CSSA or universal basic income)
 - EITC raises W/P

Copyright © McGraw-Hill Education. Permission required for reproduction or display.

Table 2-5 The Impact of the Earned Income Tax Credit on Labor Force Participation

Source: Nada Eissa and Jeffrey B. Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics* 111 (May 1996): 617.

	Participation Rate before Legislation (%)	Participation Rate after Legislation (%)	Difference (%)	Difference-in- Differences (%)
Treatment group—eligible for the EITC:				
Unmarried women with children	72.9	75.3	2.4	
Control group—not eligible for the EITC:				2.4
Unmarried women without children	95.2	95.2	0.0	