

Commission on Poverty

The Measurement of Poverty

Purpose

This paper sets out for Members' reference some background information concerning the measurement of poverty¹. It also outlines the benchmarks adopted by various bureaux for access to respective assistance/support programmes to facilitate Members' consideration of the way forward on the subject.

Concept and Measurement of Poverty

2. The definition of poverty is value-laden and culturally influenced and thus defies consensus. Nevertheless, broadly speaking, the myriad of definitions adopted generally fall into the following categories -

- Poverty is having less than an objectively defined, absolute minimum.
- Poverty is having less than the others in society, in relative terms.
- Poverty is feeling you do not have enough to get along (subjective poverty).

¹ This paper has drawn reference to the research conducted by the Research and Library Services Division of the Provisional Legislative Council Secretariat. *The measurement of poverty* (March 1998). A copy of the research has been sent to Members' for ease of reference.

Absolute Poverty

3. The absolutist approach to defining poverty follows the concept of minimum subsistence; that is, those with means inadequate to afford a bundle of goods and services that are regarded as essential to the physical need of an individual or a family are considered “poor”. The limitation of this approach is that it focuses on physical needs rather than social needs. What to include in the bundle of “necessities” and how each component should be evaluated involve subjective judgement and are contentious.

Relative Poverty

4. People are living in relative poverty when they lack the resources to obtain the type of diets, participate in the activities and have the living conditions and amenities which are customary in the societies to which they belong². The usual measurement of relative poverty is a proportion of the median income in the society. The greatest merit of this approach is its relative simplicity in administration. However, assessment based on income does not fully take into consideration the actual consumption needs of the poor. For instance, it does not take into account non-income benefits provided by the Government and other non-governmental organisations. The determination of the proportion of the median income (e.g. 50%, 60%) is also unavoidably arbitrary. It may also have significant, probably inadvertent public policy consequences. First, adoption of the median means that the proportion of people who are considered poor will be relatively constant, no matter how much has been and will be done. Secondly, the possible adverse effects on work ethics and especially among those with employment fetching less than the median pay need to be taken into careful consideration.

² Peter Townsend. (1979). *Poverty in the U.K.* Harmondsworth: Penguin; London.

Other Approaches

5. Two other methods measure poverty from a more subjective/social approach, namely the budget standards method and the income proxy method. The budget standards method follows the absolutist approach but incorporates various socially determined essential needs.

6. The income proxy method adopts a behaviourist approach in determining a proper proportion of expenditure on necessities based on the consumption patterns of the comparable segments of the society (i.e. those who spend more than X% of their family expenditure on necessities are considered poor). As is the case with the absolutist approach, determining needs and quantifying them inevitably involve controversial value-judgements.

International Comparison

7. For ease of international comparison, the World Bank crudely estimates poverty lines for various regions based on consumption of goods and services (i.e. budget standards method). The poverty line for regions in abject poverty is set at US\$1 a day per person, US\$2 for Latin America, US\$4 for Eastern Europe, and US\$14.4 (which corresponds to the US poverty line) for high-income economies, including Hong Kong. Since the social conditions of countries differ from one to another, the World Bank is not able to construct poverty lines for individual countries.

8. The European Commission defines the proportion of individuals living in households where equivalised income is below the threshold of 60% of the national equivalised median income as living in poverty. In other words, it opts for the concept of relative poverty. This threshold

however does not represent the poverty lines for individual EU countries, and it is described as “neither a necessary nor a sufficient condition of being in a state of poverty ... this indicator is referred to as a measure of poverty risk”.³ Despite this EU definition, worth noting is that tackling poverty including the provision of related social assistance is still very much a national responsibility.

9. The US approach is a modification of the absolutist approach. It has an official poverty line which specifies a set of income thresholds adjusted for different sizes/composition of households and updated yearly to reflect the necessary purchasing power to meet the basic needs. Australia, U.K., the Republic of Korea, Singapore and Taiwan have not adopted an official poverty line. Australia and the U.K. have their quasi-official poverty lines on the basis of the level of social assistance and household income⁴.

10. How different authorities define and tackle poverty must be understood in context as it is impossible to segregate the approach to poverty from the social structure and ethos, economic and fiscal policy making as well as the political process. Therefore, great care should be exercised in comparing poverty and ways to tackle it across different societies.

Poverty/Income Disparity Situation in Hong Kong

11. The Government collates different socio-economic statistics, which reflect the situation of the poor households in Hong Kong. Amidst

³ European Commission (2004) *Joint Report on Social Inclusion*.

⁴ Information from the research conducted by the Research and Library Services Division of the Provisional Legislative Council Secretariat, *The measurement of poverty* (March 1998).

the profound shock brought about by the Asian financial crisis in 1998 and the ensuing structural changes in the economy, the unemployment rate soared from below 2.5% in 1997 to a high of 8.6% during May-July 2003. The unemployment situation was particularly acute among the less-educated and lower-skilled workers, and even more so for the construction workers (*Annex A - Chart 1, Tables 1-3*). As a result, a widening gap between the rich and the poor has been observed, amidst the trend of falling household income over the past few years.

12. As the economy rebounded since the second half of 2003, the unemployment rate has come down to 6.5% during Q4 2004. Job vacancies have also increased across almost all sectors, including those at the lower end of the skills spectrum. Wages tended to stabilise since mid-2004, with visible increases observed for the retail trade, travel agents, sanitary services and barber and beauty shops. But a high level of unemployment still exists in the construction industry.

13. The median monthly household income of households at the bottom two decile groups declined by over 30% between end-1997 and end-2004 (*Annex B - Chart 2*). This is the combined results of a number of factors:

- (a) The acceleration in unemployment from 1998 onwards was more distinct for the unskilled and less-educated workers, with their skill level yet to catch up with the more sophisticated job requirements in a knowledge-based economy. As to the construction workers, they bore the brunt of the adverse impact from the adjustment in the property market, and the winding down of major infrastructure projects.

- (b) Among those remaining in employment, the earnings of those belonging to the lower decile groups faced more substantial declines, as the excess of labour supply over labour demand has been more severe among the unskilled.
- (c) Household size is on a continuous falling trend. And as household income is proportional to household size, this has led to more and more small-sized households falling into the lower income deciles. In other words, the more significant drop in household income amongst the lower deciles as compared to the higher income deciles is magnified by the change in household size.

14. An examination of the median monthly household income data by decile group indicates that a large part of the abrupt decline in income for the lower decile groups occurred between end-1997 and end-1999. Since then, the disparity in the rate of income change for households in the lower and upper decile groups narrowed, and the income for households at the lowest decile group actually increased. Indeed, the increase in employment associated with the current phase of economic recovery included quite a substantial number of jobs at the middle to lower segment of the occupation hierarchy, like service workers and shop sales workers. Between end-2003 and end-2004, the median monthly household income of households at the lowest first and second decile groups rose by 2.7% and 1.7% respectively, which outperformed almost all the other decile groups.

15. Latest economic indicators suggest that economic prospects for 2005 remain promising and the unemployment rate should continue to fall. Increased activities in the more labour-intensive tourism and consumption-related sectors should help to improve the employment and earnings of the lower-skill workers.

16. Statistics concerning CSSA caseload also reflects on the situation of those who need government assistance. As at December 2004, the total number of CSSA cases amounted to 295 694, representing an increase of about 182.1% over that in 1994; the total number of recipients stood at 542 017, representing an increase of 333.5% over that in 1994. The CSSA take up rate to Hong Kong's total population has increased from 2% in 1994/95 to 8% in 2004/05. CSSA expenditure has increased drastically over the past decade, from \$3,427 million in 1994-95 to \$17,306 million in 2003-04. The average annual growth rate was 19.7% during the period. CSSA expenditure as a percentage of total government recurrent expenditure increased from 3.2% to 8.7% over the same period. The proportion of expenditure on unemployment/low earnings/single parent family cases which involve mainly able-bodied recipients increased from 16.0% in 1994-95 to 41.4%.

Benchmarks for Assistance/Support Programmes

17. There is no official poverty line in Hong Kong. Nevertheless, in practice those who are in need of assistance have access to extensive social and welfare services provided by the Government. Broadly speaking, the Government has adopted a pragmatic approach by providing either universal service or defining eligibility for services/assistance having regard to the nature of the services/assistance in question -

Welfare services: people who cannot meet their basic needs (including those with low income) can be regarded as “the poor” and can get access to the CSSA Scheme (eligibility criteria are set out at *Annex C*). Besides, the Government also provides various support services targeting at those in need, including low-income families, children and youth, women, elderly, people with disabilities.

Health services: CSSA recipients will be waived from payment of their expenses for services rendered by Department of Health and Hospital Authority. To assist the vulnerable groups in the community, i.e., the low income group, chronically ill patients and elderly patients who have little income or assets, but who are not CSSA recipients, the Government has implemented an enhanced medical fee waiver mechanism to provide effective protection from undue financial burden to them.

Education services: The Government provides nine-year free and universal education as well as various forms of assistance and services to help students and youths who need support.

Employment assistance: The Labour Department provides a comprehensive range of free employment services to help job-seekers secure employment, some targeting at certain vulnerable groups (e.g. young people, the middle-aged, people with disabilities). In order to assist unemployed able-bodied CSSA recipients to seek gainful jobs, the Social Welfare Department introduced the Support for Self-reliance Scheme and other support services.

Please refer to CoP Paper 2/2005 for more details on the measures and the benchmarks used, if any, to target at the disadvantaged groups.

Way Forward

18. Research studies and international experience have strongly suggested that poverty is a socially constructed concept and the definition of poverty is subject to the contextual variables. In Hong Kong, some favour identifying a definition appropriate to Hong Kong while others doubt the desirability of a uniform definition. Among the latter group, the generally preferred approach is to focus on identifying categories of persons currently considered ineligible for the services/assistance in question but who should have been included and/or areas of assistance/services that fall short of a reasonable standard.

19. Members are invited to note the different definitions of poverty and the pragmatic approach adopted by Hong Kong, and consider further work to be done to decide whether a poverty line should be drawn or otherwise for Hong Kong.

Commission Secretariat

February 2005

Chart 1 : Unemployment rate by major economic sector

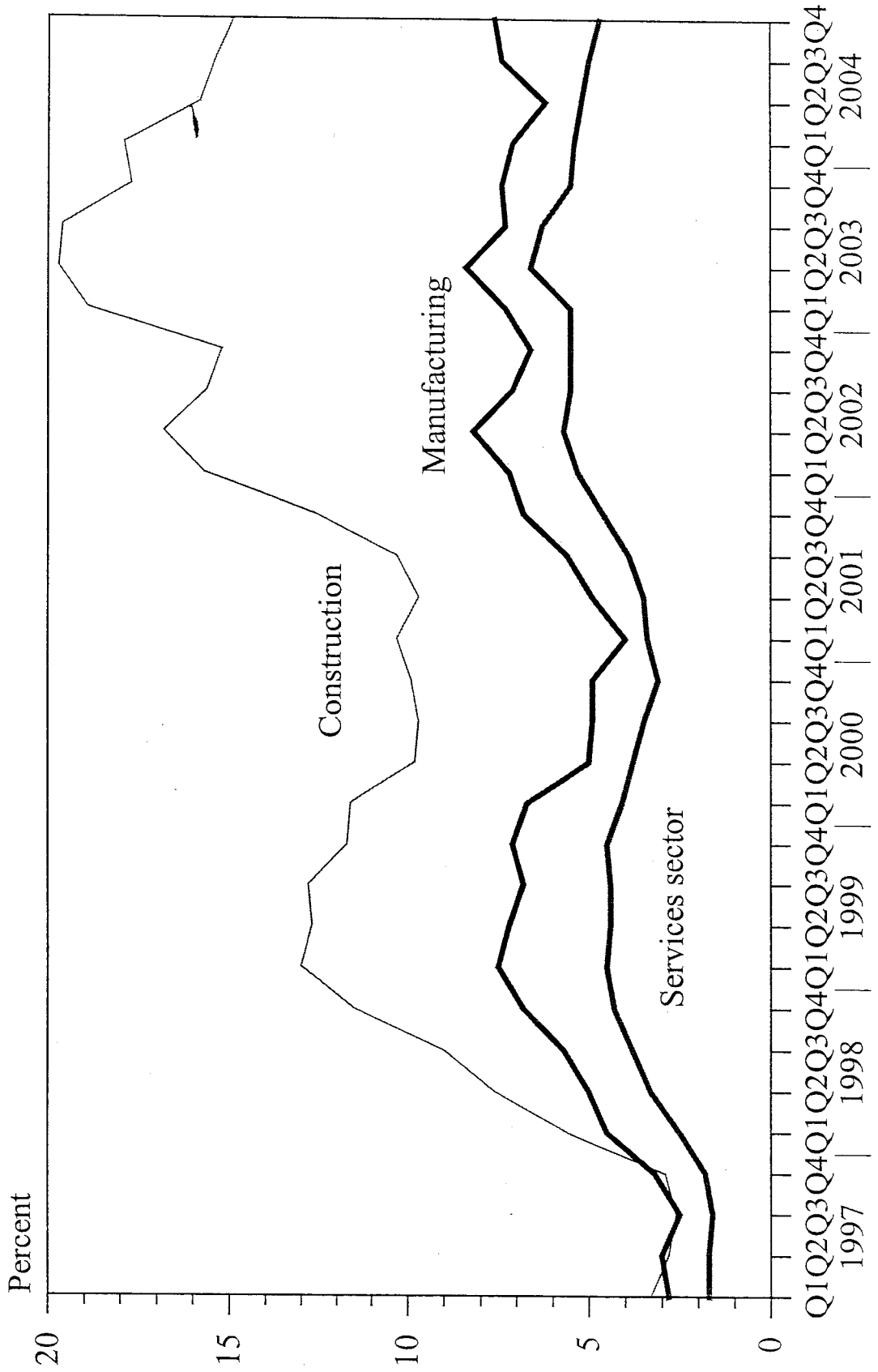


Table 1 : Employed persons, unemployed persons and unemployment rate by economic sector

	No. of employed persons in Q4 2004	No. of unemployed persons in Q4 2004	Unemployment rate in Q4 2004 (%)
Manufacturing	225,000 (6.8%)	19,000	7.6
Construction	276,000 (8.3%)	48,000	14.9
Service sector	2,803,000 (84.2%)	138,000	4.7
<i>Of which :</i>			
Distributive and catering trades	1,079,000 (32.4%)	70,000	6.1
Transport, storage and communications	364,000 (10.9%)	18,000	4.6
Financing, insurance, real estate and business services	483,000 (14.5%)	21,000	4.1
Community, social and personal services	877,000 (26.4%)	30,000	3.3
Others	23,000 (0.7%)	#	2.0
TOTAL	3,328,000 (100.0%)	227,000 @	6.5 *

Notes : Figures for Q4 2004 are provisional.

() Figures in brackets represent % share in the total.

(#) Less than 500.

(@) These include first-time job-seekers and re-entrants into the labour force, and hence larger than summation of the individual economic sectors.

(*) Seasonally adjusted.

**Table 2 : Employed persons, unemployed persons and unemployment rate
by occupation category**

	No. of employed persons in Q4 2004	No. of unemployed persons in Q4 2004	Unemployment rate in Q4 2004 (%)
Higher-skilled workers	1,125,000 (33.8%)	30,000	2.6
Managers and administrators	291,000 (8.8%)	6,000	2.0
Professionals	219,000 (6.6%)	4,000	1.8
Associate professionals	614,000 (18.5%)	20,000	3.2
Lower-skilled workers	2,195,000 (66.0%)	175,000	7.4
Clerks	531,000 (16.0%)	25,000	4.5
Service workers and shop sales workers	525,000 (15.8%)	42,000	7.3
Craft and related workers	275,000 (8.3%)	38,000	12.0
Plant and machine operators and assemblers	239,000 (7.2%)	14,000	5.7
Elementary occupations	625,000 (18.8%)	56,000	8.3
Others	8,000 (0.2%)	#	3.6
TOTAL	3,328,000 (100.0%)	227,000 @	6.5 *

Notes : Figures for Q4 2004 are provisional.

() Figures in brackets represent % share in the total.

(#) Less than 500.

((@) These include first-time job-seekers and re-entrants into the labour force, and hence larger than summation of the individual occupation categories.

(*) Seasonally adjusted.

**Table 3 : Employed persons, unemployed persons and unemployment rate
by education attainment**

	No. of employed persons in Q4 2004	No. of unemployed persons in Q4 2004	Unemployment rate in Q4 2004 (%)
No schooling/Kindergarten	35,000 (1.1%)	4,000	9.5
Primary	448,000 (13.5%)	53,000	10.5
Lower secondary	567,000 (17.1%)	60,000	9.5
Upper secondary	1,153,000 (34.7%)	73,000	6.0
Matriculation	171,000 (5.1%)	7,000	4.1
Tertiary	953,000 (28.6%)	30,000	3.1
Tertiary : non-degree	311,000 (9.3%)	13,000	4.0
Tertiary : degree	642,000 (19.3%)	17,000	2.6
TOTAL	3,328,000 (100.0%)	227,000	6.5 *

Notes : Figures for Q4 2004 are provisional.

() Figures in brackets represent % share in the total.

(*) Seasonally adjusted.

Comprehensive Social Security Assistance

The Comprehensive Social Security Assistance (CSSA) Scheme provides financial assistance to bring the income of needy individuals and families up to a prescribed level to meet their basic needs.

Eligibility Criteria

To be eligible for assistance, an applicant must satisfy the following conditions:

A. Residence Requirements

The applicant must satisfy the following residence requirements:

- (a) he/she must have been a Hong Kong resident for at least seven years; and
- (b) he/she must have resided in Hong Kong continuously for at least one year immediately before the date of application (absence from Hong Kong up to a maximum of 56 days during the one-year period is treated as residence in Hong Kong).

Notes:

- (1) Persons whose presence in Hong Kong is unlawful or persons who are permitted to stay in Hong Kong for a purpose other than residence (for example, imported workers or visitors) are excluded from the Scheme.
- (2) Persons who have become Hong Kong residents before 1 January 2004 are exempted from the residence requirement in A(a) above.
- (3) Hong Kong residents aged below 18 are exempted from the residence requirements in A(a) and A(b) above.
- (4) In exceptional circumstances, CSSA may be granted at the discretion of the Director of Social Welfare to a person who does not satisfy the residence requirements.

B. Financial Tests

The applicant must pass both the income and assets tests. If the applicant is living with any other family members, the application has to be made on a household basis. The total income and assets of all family

members in the same household are taken into account in determining the family's eligibility for assistance.

(a) *Assets Test*

The total value of the capital assets (i.e. properties, cash, savings, investments, and other realizable assets) held by the applicant and his/her family members must not exceed the following limits:

(i) Single person cases

	Asset limit (\$)
Able-bodied adult	22,000
Non-able-bodied adult (i.e. a child, an elderly, a disabled person or a person medically certified to be in ill-health)	34,000

(ii) Family cases

a) Cases involving any able-bodied adult

Able-bodied adults/children		Elderly, disabled persons or persons medically certified to be in ill-health	
No. of such members	Asset limit (\$)	No. of such members	Asset limit (\$)
1	14,500	1	34,000
2	29,000	2	51,000
3	43,500	3	68,000
4 or above	58,000	4	85,000
		5	102,000
		6	119,000

[For example, the asset limit of a 7-member family, including two able-bodied adults, three able-bodied children, one disabled child and one elderly person, is \$109,000 (i.e. \$58,000 + \$51,000).]

b) Cases involving no able-bodied adult

No. of family members	Asset limit (\$)
2	51,000
3	68,000
4	85,000
5	102,000
6	119,000

Note:

All non-owner-occupied residential properties are treated as assets. The value of an owner-occupied residential property is treated in the following manner:

- (1) The value of the property is totally disregarded for the asset test in cases where there is any member being old, disabled or medically certified to be in ill-health.
- (2) Where there is an able-bodied adult aged below 50 in the family and no other member being old, disabled or medically certified to be in ill-health, the value of the property will be included for the asset test after a grace period of 12 months.
- (3) For single parents with young children, the Director of Social Welfare may, at his discretion, extend the grace period to allow single parents to continue to receive assistance without disposing of their residential property, subject to meeting the following two

conditions:

- (i) the youngest child in the family is below 15 ; and
- (ii) the total value of the assets held by the family, including the net value of the owner-occupied residential property, is insufficient to meet the family's maintenance for ten years according to CSSA standards.

The owner-occupied residential property of these single parent families will not be included for the asset test until the youngest child reaches 15.

(b) Income Test

The applicant and his/her family will be eligible for CSSA if their total assessable monthly household income is insufficient to meet their total monthly needs as recognized under the Scheme. When assessing a family's resources, training allowance and earnings from employment of those meeting the prescribed criteria can be disregarded up to a prescribed level.

C. Additional criteria for able-bodied adults

A person aged 15-59 in normal health has to meet one of the following conditions:

- (a) not being available for work for reasons acceptable to the Social Welfare Department (for example, studying or having to look after young children or sick or disabled family members at home); or
- (b) earning not less than \$1,430 per month and working not less than 120 hours per month; or
- (c) in the case of being unemployed or earning less than \$1,430 per month or working less than 120 hours per month, actively seeking full-time jobs and participating in the Support for Self-reliance Scheme of the Social Welfare Department.