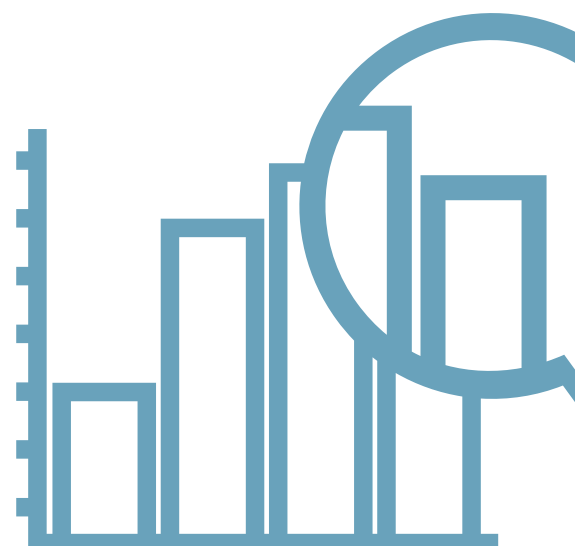# 2 UNDERSTANDING POVERTY

POVERTY IN THE PUBLIC POLICY AGENDA

2.1   While assisting the needy has long been an established part of Hong Kong's public policy, the establishment of the Commission has brought forth the concept of poverty as a public policy matter.

2.2   However, identifying who are the poor, assessing the causes of poverty and considering the appropriate policy tools to assist people move out of poverty is not at all straightforward. In an affluent city like Hong Kong, poverty can no longer be understood simply by the concept of absolute poverty[1] or the lack of ability to afford minimum subsistence.

2.3   Besides "income poverty", access to essential services and opportunities (e.g. housing, health, education, employment) is of critical importance to the livelihood of the poor. The family and socio-economic background of the individuals involved is also closely interrelated to their poverty situation.

2.4   Hence, understanding poverty requires more than relying on a poverty line to measure income poverty, but a contextual understanding of the needs of the individuals and their families concerned. Given the broad range of financial assistance and support already in place, it is more important to identify the specific needs of different disadvantaged groups and the nature and risk of poverty, and to address them through specific policy measures.

WORK OF THE COMMISSION

One of the first tasks of the Commission is to examine the relevant data and needs of different disadvantaged groups, in order to enhance the general understanding of the poverty situation in Hong Kong. Reference has been drawn to the following -

(a)   A set of Indicators of Poverty which adopts a multi-dimensional approach to monitor the poverty situation in Hong Kong over time;

(b)   A study on the Effect of Taxation and Social Benefits on Household Income Distribution to improve the understanding of economic well-being of low-income families vis-à-vis other income groups;

(c)   A study on Earnings Mobility and Intergenerational Earnings Mobility in Hong Kong over the period 1996 – 2005; and

(d)   Relevant analysis on the situation of income disparity in Hong Kong.

INDICATORS OF POVERTY

2.5   In order to enhance our understanding of poverty, the Commission has reviewed relevant local and overseas experience. A set of indicators of poverty has been compiled to reflect the key needs (viz. income, education/training, employment, health, living conditions and community/family support) of people in the following three major age groups -

- •   Children and youth;

- •   Working people aged 15-59; and

- •   Elders.

A number of community indicators have also been compiled to shed light on people's well-being on a district basis. A full set of the poverty indicators is at Appendix (i) [2].

**Children and youth (aged 0-14 / 15-24)**

2.6   A number of indicators relating to income and family support, employment and living conditions, education and training relevant to the poverty risk of children and youth are selected. These indicators point to a general improvement in the poverty indicators over the past three years, on the back of sustained strong economic growth.

2.7   Performance of the selected key indicators is highlighted below -

   (a)   Households with income below average CSSA payment are generally perceived as low-income or poor households. In 2006, there were 169 100 children (aged 0-14) living in such households, representing 18.1% of the population of this younger age group (***Chart 1***).
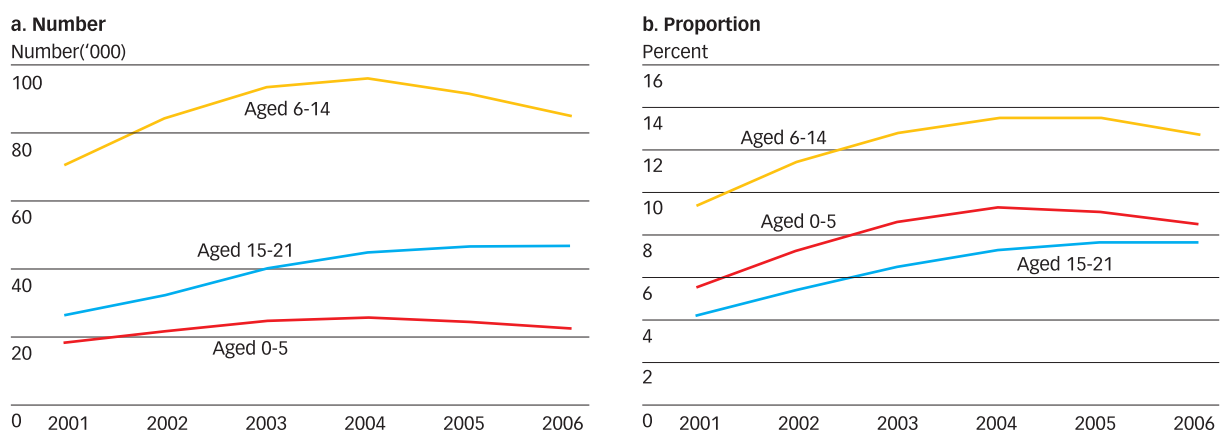
(b)   In tackling intergenerational poverty, employment of parents is considered an important factor to reduce poverty risk of the children. It is obvious that the number of children living in workless households went down from 99 000 in 2005 to 90 400 in 2006, representing 9.7% of the children population. Among those children living in low-income households, 37% of them were also living in workless households. However, 31% of the children living in workless households were in fact living in households with income above average CSSA payment (***Chart 1***).

CHART 1: CHILDREN LIVING IN POOR HOUSEHOLDS

a. Number

Number('000)

b. Proportion

Percent
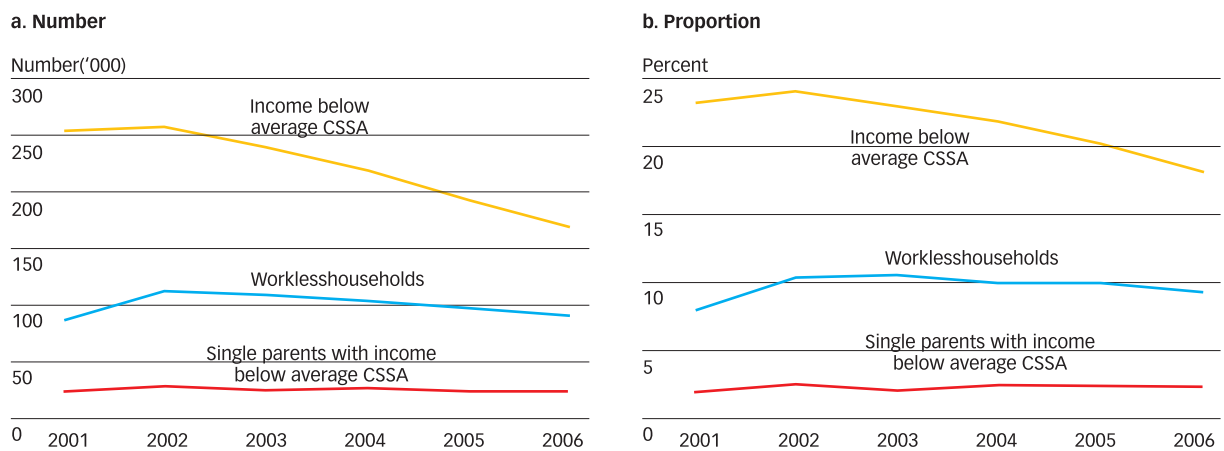
(c)   Among children living in low-income households, those with single parent deserve focused attention. This particular group of children edged down from 24 500 in 2005 to 23 100 in 2006, accounting for 2.5% of the children population (***Chart 1***).

(d)   In line with the declining trend of total CSSA caseload, the number and proportion of children (aged 0 – 14) receiving CSSA has decreased in 2006. Meanwhile, the uptrend observed for youth (aged 15-21) receiving CSSA in the past several years has shown signs of levelling off in 2006 (***Chart 2***).

CHART 2: CHILD RATE CSSA RECIPIENTS BY AGE GROUP

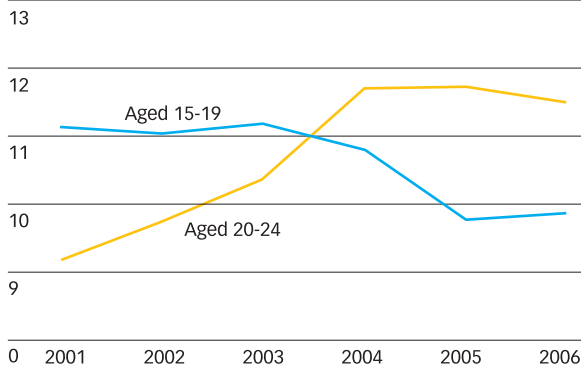**a. Number**

Number('000)

b. Proportion

Percent

(e)   In terms of housing, the living conditions of children show signs of improvement. Specifically, the number of children living in private temporary housing and shared units reduced from 14 700 in 2005 to 13 400 in 2006, accounting for 1.4% of the children population.

(f)   In terms of education and training, the proportions of youth who remain in education after the nine-year universal education and who have attained tertiary education are on a continuous uptrend. In 2006, about 84% of the youth aged 16-19 were still receiving education and 55% of those aged 20-24 were with tertiary education. The proportion of non-engaged youth (i.e. those who are not receiving education or training, and not actively seeking employment) aged 15-19 remained stable at 2.3%, while that for 20-24 edged lower to 2.6% of the respective age groups (**Chart 3**).

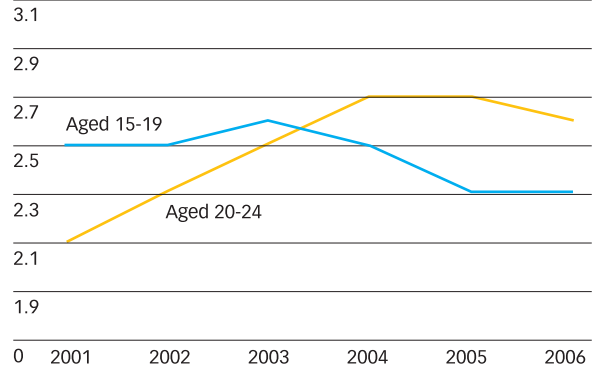**CHART 3: NON-ENGAGED YOUTH BY AGE GROUP**

Working population (aged 15-59)

2.8   For people generally at working age, the primary concern is whether they are in employment. For those who are, the concern is how many of them belong to the working poor (i.e., engaged in jobs with very low earnings). As for those who are not, especially for a long duration, they are more likely to fall into or trap in poverty as they would generally face greater difficulties in getting re-employed.

2.9   Against this consideration, performance of the key indicators is highlighted below –

(a)   The recent sustained improvement in the labour market has benefited some of the jobless households as well. But there are still some other households which are experiencing great difficulties in getting at least one person back in employment. This could be due to occupational and regional mismatch, health reasons, or the need to take care of children or the elderly in the family. Among the 4.49 million working population aged 15-59, 449 500 or 10.0% of them lived in low-income households and 266 200 or 5.9% lived in workless households in 2006 (**Chart 4**). As in the case of indicators for children, the improvement in the indicators for working population aged 15-59 was more visible among persons living in low-income households than in workless households.

CHART 4: WORKING POPULATION LIVING IN WORKLESS HOUSEHOLDS AND LOW-INCOME HOUSEHOLDS

**a. Number**

Number('000)

b. Proportion

Percent
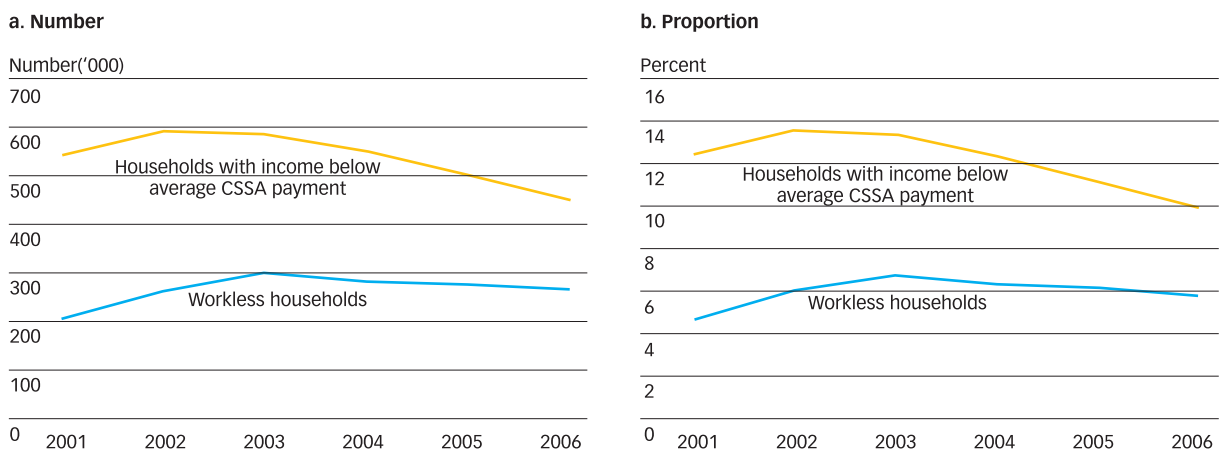
(b)   Along with continued improvement in the labour market over the past three years, unemployment eased notably further in 2006. The number of unemployed persons aged 15-59 was reduced to 167 800 and the corresponding unemployment rate to 4.8%. In particular, the number of persons unemployed for six months or longer dropped significantly to 44 900 from 60 000 a year earlier. The former represented a long-term unemployment rate of 1.3% (**Chart 5**).

(c)   In terms of income from employment, it is worth noting that the number and proportion of full-time employed persons aged 15-59 with monthly employment earnings less than 50% of the median increased from 155 800 and 5.9% in 2005 to 213 600 and 8.0% in 2006 (**Chart 5**). This is due in part to the increased availability of full-time low-paid jobs for previously underemployed workers, especially those in

elementary occupations, on the back of the sustained economic upturn. The rise in the overall median employment earnings to \$10,500 from \$10,000 over the same period also partly contributed to this.

CHART 5: UNEMPLOYMENT RATE AND LOW-INCOME FULL-TIME EMPLOYED PERSONS

a. Unemployment rate
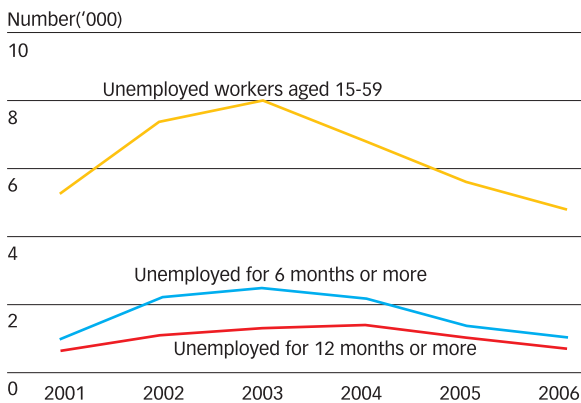
b. Proportion of employed persons aged 15-59 working 35 hours or above per week and with monthly employment earnings less than 50% of the median
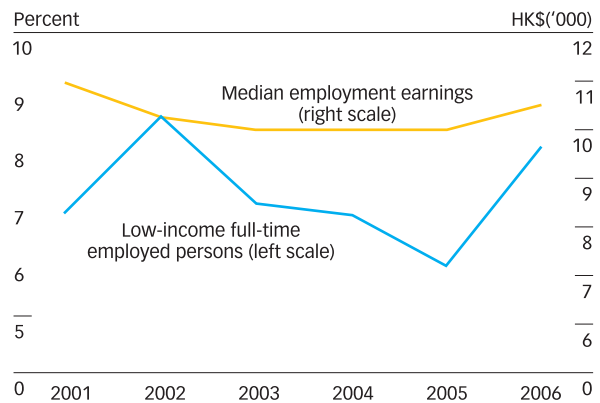
(d)   Turning to the 128 200 adult able-bodied CSSA recipients at end 2006, they accounted for 2.6% of the population aged 15-59, down from 2.9% at end 2005. Among them, 88% were CSSA recipients for more than one year. Although marginal improvements were observed for this group, improvements of much greater magnitude were seen among those who had been on the scheme for less than one year (***Chart 6***). This points to the importance of offering assistance and support to recipients of unemployment CSSA at an early stage to help them leave the welfare net.

CHART 6: ADULT ABLE-BODIED CSSA RECIPIENTS AGED 15-59

a. Number
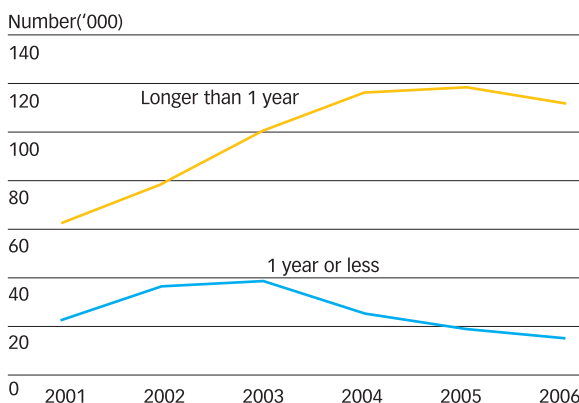
b. Proportion
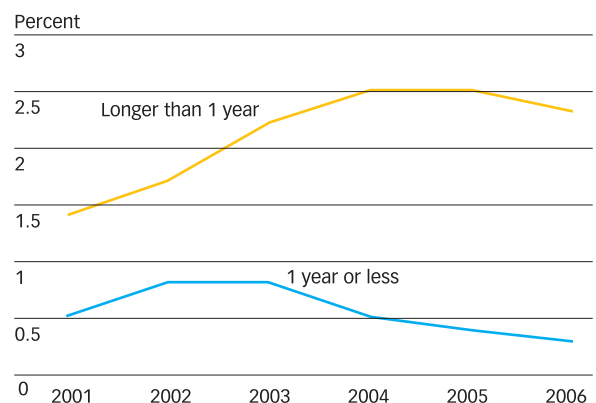
The elders (aged 60 or above)

2.10 For the elders, the main concerns involve their health and medical care, financial and housing needs. Key statistics are summarised below -

(a) At end 2006, the number of elderly CSSA recipients aged 60 or above remained broadly stable at 187 800, while their share in the population of corresponding age group edged down to 16.7%[3] (**Chart 7**).

(b) In respect of the medical fee waiver under public hospitals and clinics[4], there were 8 026 elders eligible for this concessionary treatment, representing 0.7% of the old-age population.

CHART 7: RECIPIENTS OF OLD-AGE CSSA

a. Number

b. Proportion in the corresponding age group
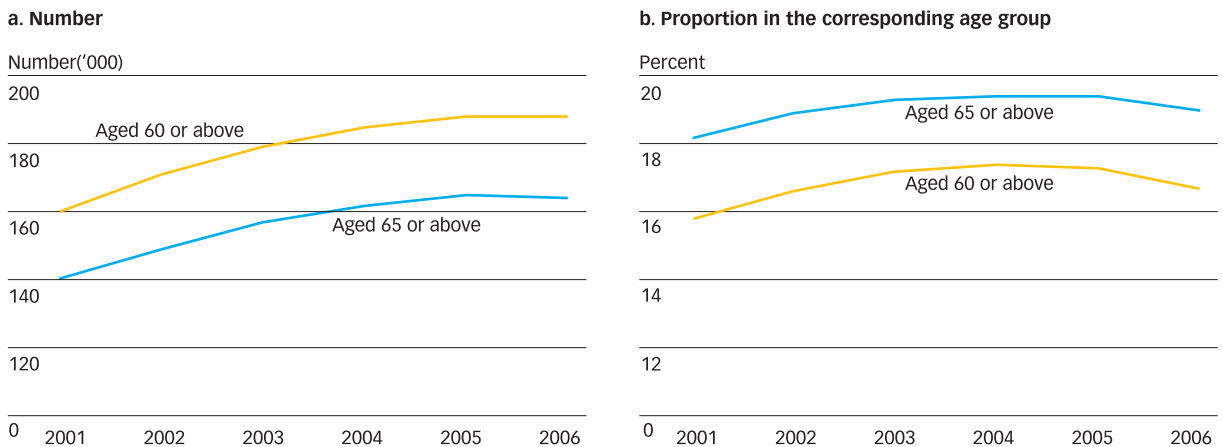
(c) Living conditions of the poor elderly held broadly stable. In 2006, there were 24 000 elders living in private temporary housing or shared units, representing 2.4% of the elder population (**Chart 8**).

CHART 8: ELDERLY PERSONS LIVING IN PRIVATE TEMPORARY HOUSING AND PRIVATE SHARED UNITS

a. Number

b. Proportion
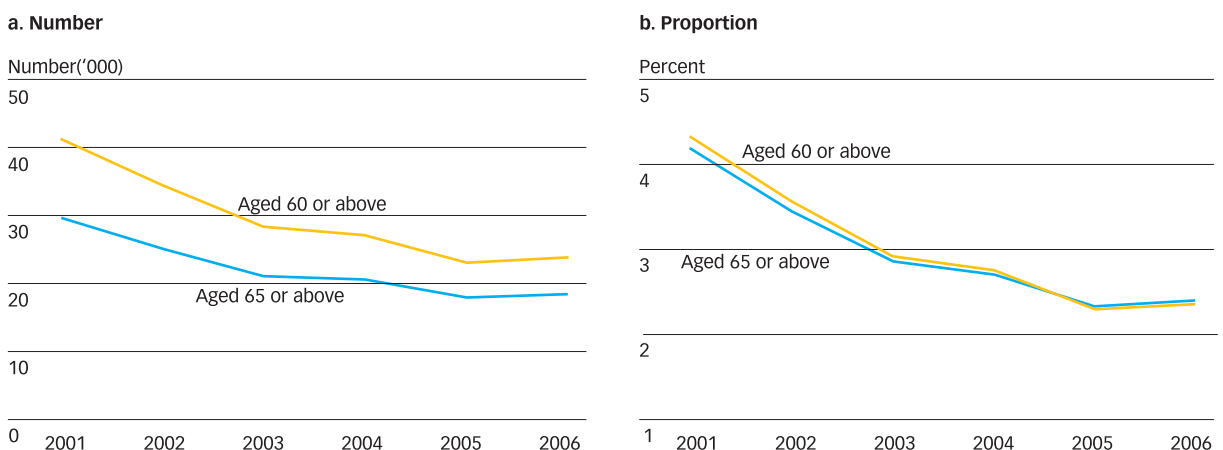
Community

2.11   In addition to the eighteen indicators relating to the vertical breakdown of the poor into different age groups, there are also six indicators relating to the horizontal breakdown by districts, yet with households instead of individuals as the basis of analysis.
For instance -

   (a)   Among the 18 districts, 9 districts registered improved employment earnings. 13 recorded increased household income and 16 displayed lower unemployment rate in 2006. The Central and Western, Wan Chai, Kowloon City, Kwun Tong, Sha Tin and Sai Kung districts were the ones with improvements in all the three indicators.

   (b)   Taking all the districts together, the overall median monthly employment earnings and household income increased respectively from $10,000 and $16,000 in 2005 to $10,500 and $16,700 in 2006.   Also, there were 221 000 low-income households, 175 200 workless households[5] and 21 900 single-parent low-income households in 2006, representing 10.0%, 7.9% and 1.0% respectively of the total number of domestic households.

   (c)   Among the 18 districts, Kwun Tong and Sha Tin had all the six indicators improved in 2006, Central and Western, Tai Po and Sai Kung districts attained improvements in five of them. Concurrently, 7 districts saw improvements in four indicators, including Eastern, Wong Tai Sin, Kwai Tsing, Tsuen Wan, Tuen Mun, Yuen Long, and North districts. The performance was less remarkable for Yau Tsim Mong and Islands, where only one indicator improved.

2.12   These macro poverty indicators are meant to give an overview of how the poverty situation evolves over time. By giving prima facie suggestions of areas deserving focused study, they provide useful reference to bureaux and departments for policy formulation and enforcement in their respective areas. Yet these indicators should be supplemented by other relevant data and information to facilitate more detailed policy planning and implementation of specific measures.

2.13   The Commission notes that these indicators may be further improved, taking into account the changing needs of the society. There is also a need for the Government to pay more conscious efforts to collect relevant data. For instance, health is important indicator relevant to the general well-being of individuals as well as their ability to enhance capacities and to work. The Government should examine ways to facilitate the collection of data and statistics for the purpose of tracking different social groups and enhancing relevant researches, e.g. the collection of health data or statistics to be taken into account in the long-term development of a territory-wide health record infrastructure.
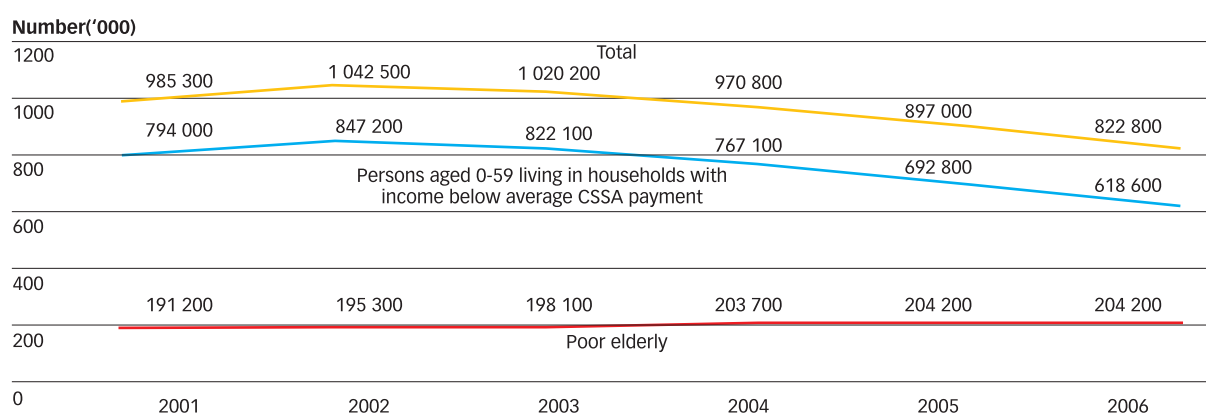
2.14 In terms of the indicators relating to the community, some Commission members have suggested that additional indicators or studies should be introduced to reflect the strength of community networks, since the density of social capital and the degree of participation of the disadvantaged group in the community are also closely linked to their well-being as a member of the society and their ability to access to essential assistance and services. While members note that measuring the concepts would not be easy, such efforts should be encouraged in the future.

UNDERSTANDING THE FACTS ABOUT THE POOR

2.15 The most common response to the question: how many poor people are there in Hong Kong, is often based on the concept of income poverty. Certainly, a reasonable level of income is essential for an individual to have a decent standard of living. Some use a percentage (50% or 60%) of the median income as a yardstick to measure income poverty. In the context of Hong Kong, the Commission considers that using the average payment under the CSSA Scheme as the benchmark for delineating whether an individual is living in poverty is more appropriate, since the payment level is widely used and recognised as the threshold where the basic living requirements in our community can be met.

2.16 The number of persons aged 0 - 59 living in households with income below average CSSA payment has decreased from 692 800 in 2005 to 618 600 in 2006, whereas the size of the poor elderly is estimated to remain unchanged at 204 200[6]. Taking together, the "poor" population in Hong Kong is estimated to be around 822 800 (***Chart 9***).

CHART 9: ESTIMATED "POOR" POPULATION IN HONG KONG

Number('000)						
			Total			
1200	985 300	1 042 500	1 020 200	970 800		
1000	794 000	847 200	822 100	767 100	897 000	822 800
800		Persons aged 0-59 living in households with income below average CSSA payment			692 800	618 600
600						
400	191 200	195 300	198 100	203 700	204 200	204 200
200			Poor elderly			
0	2001	2002	2003	2004	2005	2006

2.17 While the figure is useful for general monitoring purpose, it alone cannot help us size up the actual poverty situation in Hong Kong. Many of the 822 800 persons are already receiving CSSA, or other financial assistance or in-kind services (e.g. housing, education, health and other social services). In order to understand the impact of our public policies and measures on household income distribution, in particular on the lower-income groups, a more in-depth assessment is called for (see paragraphs 2.18 – 2.23).

Effect of taxation and social benefits on household income distribution[7]

2.18 At the recommendation of the Commission, the Census and Statistics Department conducted a study on the effect of taxation and social benefits on household income distribution based on the data collected from the General Household Survey (GHS) in 2005. To this end, the concept of post-transfer income (after taking into account taxation and social benefits provided by the Government) in addition to gross income is employed in studying the economic well-being of households.

2.19 Before adjustment, it was observed that the 10% of households with the highest income (those in the highest decile group) accounted for 39% of total income, in stark contrast to 0% for households in the lowest decile group. After adjustment, it was noted that the post-transfer household income increased across all decile groups, except for the highest one.

2.20 As a result, the share of income for the highest decile group decreased from 39% to 31% on an adjusted basis, while that for the lowest decile group increased from 0% to 3%. The study also found that the lowest two decile groups received 32% of the imputed total selected social benefits and cash transfer, and their post-transfer household income increased substantially.

2.21 Thus, the impacts of taxation and social benefits varied among different income decile groups. In general, the higher the level of household income, the smaller was the amount of social benefits received by the households concerned.

2.22 It is also noteworthy that among the various types of income, income from work / investment is the most important in helping those with working abilities to move out of poverty. On the other hand, cash transfer, taxation and social benefits have a redistributive impact and assist households in the lower decile groups to meet the basic requirements of daily living such as education, housing and medical needs.

2.23 Further to the above study, the Census and Statistics Department is conducting an in-depth analysis on income disparity in Hong Kong and how public policies impact on income distribution, based on the more comprehensive data collected via the 2006 Population By-census. A Thematic Report on the subject will be released to the public in mid-2007.

Earnings mobility[8]

2.24   Analysis of poverty should not be limited to the current situation. Its scope should be expanded to cover opportunities for future social mobility and intergenerational mobility. This is also in line with one of the key core values existing in Hong Kong - that there are opportunities in the society for those who, through their own efforts, can make the best of their abilities to improve living standards over time.

2.25   The Hong Kong Institute of Economics and Business Strategies of the University of Hong Kong has conducted a study on earnings mobility and intergenerational earnings mobility in Hong Kong over the past decade or so. The study found that labour earnings in Hong Kong were generally mobile for the period 1996 – 2005. Workers who possessed the capability and were willing to work hard were able to move up the earnings ladder, regardless of their initial income level. On the other hand, individuals who had not enhanced skills in step with the evolving work requirements were more likely to move down or else trap in the lower end of the earnings ladder.

2.26   Compared with the findings of an earlier study covering the period 1991 - 2000, earnings mobility however decreased in both directions in overall terms as well as across virtually all types of workers in 1996 – 2005. While upward mobility might have been restrained during 1996 – 2005 as the Hong Kong economy was suffering from a series of setbacks including the property slump and prolonged deflation following the Asian financial crisis in 1997, the global economic downturn and outbreak of SARS in 2003, downward mobility was also reduced notwithstanding that the economy was hard hit by the turmoil.

2.27   Intergenerational poverty was not found to be prevalent among those studied, as 87% of the children with their fathers in the lowest earning quintile group were found to have moved up from the bottom quintile group. While a positive correlation was observed with regard to intergenerational educational attainment, those children whose fathers had lower educational attainment of only primary level still had fairly good opportunities to receive secondary or higher education, with the chance being estimated at more than 91%.

2.28   From a policy perspective, education remained highly effective in reducing the likelihood of being trapped in the low-income group, particularly for young people. In a general sense, education was also a key to enhancing upward earnings mobility and reducing the downward mobility. The Commission supports the direction as recommended by the study for the Government to continue investing heavily in education as a means to enhance upward earnings mobility and strengthen an individual's ability to break away from intergenerational poverty.

2.29   The Commission notes that a socially mobile society coupled with economic dynamism offers the best solution to poverty. The Commission supports further efforts to track the situation of social and earnings mobility in Hong Kong. Consideration should also be given to carrying out longitudinal studies on children and other major vulnerable groups.

Income disparity[9]

2.30   Concerns about poverty stem not only from the size of the poor population, but also from the widening income disparity in Hong Kong. Many use the Gini Coefficient[10] to reflect the enlarged income disparity in the local community. The Gini Coefficient rose from 0.451 in 1981 to 0.525 in 2001.

GINI COEFFICIENT OF HONG KONG BETWEEN 1981-2001

	1981	1986	1991	1996	2001
Gini Coefficient	0.451	0.453	0.476	0.518	0.525

2.31   In order to have a more accurate understanding of the above data, there is a need to take into account –

(a)   the impact of taxation and social benefits which have an important impact on income distribution; and

(b)   other demographic, social and economic factors which affect the trend of the coefficient.

2.32   In relation to (a), the Census and Statistics Department has taken this into account in the analysis of income disparity in Hong Kong, based on the more comprehensive data collected via the 2006 Population By-Census. A Thematic Report on the subject will be released to the public in mid-2007.

2.33   In relation to (b), the Government Economist has conducted analysis of the relevant data and underlying factors. One major factor affecting household income and its distribution pattern is the ongoing change in family structure towards small and nuclear families, which has in turn led to a progressive decline in the average household size. As household income depends partly on the household size and in particular on the number of working members, a decline in average household size would normally pose a drag on household income, especially among the lower-income households.

2.34   Further analysis indicates that the rapid increase in small households, particularly those comprising elderly persons, is a major factor contributing to the increase in low-income households in recent years. Most of these elderly are retirees, who are living on their own savings and/or financial assistance from the Government or other family members not living with them. If the elderly people were still living with their children or grandchildren, many of the households involved would probably not be statistically counted as low-income households.

2.35 Disparity in income between the highly educated and highly skilled workers and the less-educated and low-skilled ones should also be understood in the context of gloablisation and the economic restructuring in Hong Kong. Hong Kong is a small, open economy. In the face of challenges and opportunities brought by globalisation and rapid economic development in the Mainland, Hong Kong has been continuously undergoing restructuring towards higher value-added activities so as to sustain economic vitality and competitiveness. During this transformation and upgrading process, many high-income jobs are being created along with enhancement of the quality of our workforce.

2.36 These developments have affected the income distribution in Hong Kong in the following ways:

(a)   The income disparity between high-income and low-income jobs is widening.

(b)   The proportion of high-income workers increases, thereby enlarging the income gap.

(c)   The income disparity among the high-income earners themselves has also increased.

(d)   The income of lower-income workers as a whole will gradually decrease when they reach middle age, whereas the income of middle-aged workers with higher salaries is likely to continue to increase. Thus, income disparity will tend to further widen with the ageing of the population.

2.37 The prolonged economic downturn in Hong Kong during 1998 to 2003 is another factor contributing to the slowdown in employment earnings among low-income workers in recent years. Unemployment, underemployment and pay cut were more commonly seen in this group than in the higher income group during this period of corporate downsizing and cost cutting, thus leading to a widening of the income gap. This notwithstanding, the more recent statistics show that although employment earnings of lowincome workers are still considerably lower now than in 1997, there has been a notable upturn in employment income among many low-income earners since mid-2003, alongside the strong economic rebound and increasing employment opportunities at the lower segment of the labour market.

DIRECTION FOR FUTURE WORK

2.38 Poverty is a complex issue and cannot be fully understood by a simplistic measurement of income poverty. In the absence of proper contextual analysis, primary income data may lead to misinterpretation and misunderstanding. In analysing the poverty situation in Hong Kong, there is a need to look beyond the income statistics, to understand the needs of the individuals and their families, their socio-economic background, as well as the wider economic, social and demographic changes taking place in Hong Kong.

2.39 This chapter highlights some of the work of the Commission in enhancing the general understanding of the poverty situation in Hong Kong. The Commission has also conducted other policy-specific researches and studies which would be elaborated in the other chapters of this report.

2.40 The work of the Commission represents a good first step in coordinating the efforts of the relevant bureaux and departments, together with the NGOs and other stakeholders, to have a thorough examination and discussion of the major issues related to the poverty situation in Hong Kong, focusing in particular on the needs of specific disadvantaged groups.

2.41 Against the background, the Commission recommends that the Government should -

INDICATORS OF POVERTY

- **Monitor and track the indicators of poverty**, and where appropriate improve them taking into account the changing needs of the society (*Paragraphs 2.12- 2.13*).

- Draw reference from the indicators of poverty as well as other relevant data and information during **policy formulation and implementation**, and consider the impact of public policies on the different disadvantaged groups and communities (*Paragraph 2.12*).

POVERTY RESEARCHES AND ANALYSIS

- Conduct and encourage relevant institutions to conduct **further poverty researches and analysis** in order to facilitate a more informed public policy discourse on the subject.

- Conduct **evaluative studies** on poverty alleviation measures.

- **Track the impact of taxation and social benefits** on household income, in particular on the lower-income group in order to ensure our public policies and measures are assisting those in need (*Paragraph 2.18-2.23*).

- **Track the situation of social and earnings mobility** in Hong Kong, and carry out longitudinal studies on children and other major vulnerable groups (*Paragraph 2.29*).

- Develop indicators or conduct studies to reflect the **strength of community networks** in the future (*Paragraph 2.14*).

- Facilitate the **collection of data and statistics** to enhance poverty researches and analysis systematically, e.g. the collection of health data or statistics to be taken into account in the long-term development of a territory-wide health record infrastructure (*Paragraph 2.13*).