

**For information on
9 November 2009**

**Legislative Council Panel on Welfare Services
Definition of Poverty**

Purpose

This paper sets out for Members' reference some background information on the definition of poverty and the deliberation of the former Commission on Poverty (CoP) on this subject.

Definition of Poverty

2. The concept of poverty is open to different interpretations. Defining poverty is a value-laden and culturally influenced matter and thus defies consensus. Nevertheless, broadly speaking, the myriad of definitions fall within two major schools of thought, namely *absolute poverty* and *relative poverty*.

Absolute Poverty

3. The absolutist approach to defining poverty follows the concept of minimum subsistence, i.e. those with means inadequate to afford a bundle of goods and services that are regarded as essential to the physical needs of an individual or a family are considered "poor". This approach is often associated with a level of financial assistance to cover "necessities". The major 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 both involve subjective judgment and are thus contentious. Furthermore, individuals and families may have different needs and one level of financial assistance may not suit all. In Hong Kong, the Comprehensive Social Security Assistance (CSSA) Scheme serves as a financial safety net for the poor, unemployed and low-income earners to meet their basic needs and the amount of assistance is assessed on the basis of the specific basic needs of individual households.

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 belong¹.

5. Some organisations attempt to understand the situation of poverty by making reference to the median household income, i.e. a family will be regarded as living in poverty if its household income is below a certain percentage (such as 50%) of the median household income. However, the determination of the proportion of the median household income is unavoidably arbitrary. Also, this income-based approach has several limitations as it does not take into account the following:

- non-income benefits and a wide range of welfare and subsidised services provided by the Government, such as education, health care and housing;
- the impact of the taxation policy – tax reduces disposable income for the relatively higher-income earners and in Hong Kong, most low-income earners do not fall into the tax net; and
- the assets / savings possessed by the persons concerned and other personal resources such as family support.

6. It is also worth noting that in Hong Kong, many people defined as “poor” using this income-based benchmark are meeting their basic needs through CSSA and / or other financial assistance provided by the Government. At present, there are about 490 000 CSSA recipients and the total expenditure for 2009-10 is expected to reach \$18.3 billion, accounting for 8.0% of the Government’s total recurrent expenditure. If Old Age Allowance and Disability Allowance under the Social Security Allowance (SSA) Scheme are taken into account, the total expenditure will add up to \$27.1 billion, representing 11.9% of the Government’s total recurrent expenditure.

¹ Peter Townsend. (1979). *Poverty in the U.K.* Harmondsworth: Penguin; London.

7. The European Commission also uses a similar approach to define poverty². This, however, does not represent the poverty lines for individual European Union 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. Therefore, we have to be cautious in interpreting statistics compiled using such a benchmark, to avoid misunderstanding or exaggerating the poverty situation.

8. For the purpose of formulating poverty alleviation policy, simply making reference to an income-based poverty line may not be helpful. This is because a portion of the population will by definition always be regarded as “poor people” owing to their relatively low income, irrespective of whether they have assets / savings and whether they have genuine hardship. Such kind of “relative” poverty will exist even when the economic standards of a society have improved over time.

Income Disparity

9. Some commentators seek to understand the situation of poverty by referring to the Gini Co-efficient⁴ which indicates the general distribution of household income in an economy. Nevertheless, income disparity and poverty are two distinct concepts. A rising Gini Co-efficient does not necessarily mean worsening of the poverty situation, as both the rich and the poor may enjoy an income increase simultaneously, albeit at different rates. Similarly, people may have low income and living standards despite a small Gini Co-efficient, provided that their income levels do not vary significantly.

10. In general, there is less income disparity amongst employed persons in economies with greater preponderance of agricultural and manufacturing activities. However, Hong Kong is an open cosmopolitan economy, offering mature, diversified and international services. As our workforce comprises various employees with different skill levels, it is inevitable that the income disparity among individuals is wide.

² According to the definition of the European Commission, individuals living in households where equivalised income is below the threshold of 60% of the national equivalised median income are living in poverty.

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

⁴ Gini Co-efficient is a figure between 0 and 1, with an increasing value pointing to a wider income disparity.

11. Over the years, Hong Kong has seen drastic changes in demographic and economic structures:

- Transformation towards a knowledge-based economy has led to an increasingly keen demand for professionals and managers with higher education and skills, resulting in the creation of a lot of higher-paid jobs. This contributes to a wider income disparity between higher-skilled workers and lower-skilled workers. Such a phenomenon is commonly observed in other knowledge-based and fast developing economies, such as the United States, the United Kingdom, Australia, Canada, Singapore, Taiwan, Thailand, Malaysia and India.
- An ageing population and smaller household size have resulted in more elderly households. As many elders have no income but are supported by their own savings and children instead, there has been an increasing number of low-income households.

12. While these factors have contributed to a higher Gini Co-efficient in Hong Kong, various Government measures such as tax policies and social benefits will have the effect of facilitating social transfers and hence containing income disparity. In 2006, the unadjusted Gini Co-efficient in Hong Kong was 0.533. If we take into account the impact of taxation (including salaries tax, property tax, rates and government rents) and social benefits (including housing, medical and education benefits), and removing the effect of a declining household size, however, the per capita post-tax post-social transfer Gini Co-efficient in 2006 would have been 0.427, which is equal to the adjusted figure in 1996 and slightly (0.006) higher than that in 2001. This suggests that, on a per household member basis and after income redistribution, the degree of income disparity has remained rather steady over the period.

Understanding Poverty in Hong Kong

13. The former CoP had deliberated fully the issue of how to measure poverty in Hong Kong. CoP was of the view that in an affluent city like Hong Kong, poverty could not be understood simply by the concept of absolute poverty or the lack of ability to afford minimum subsistence, nor could we rely upon a single poverty line to measure income poverty. We must take into consideration the actual situation

and needs of the disadvantaged groups, including their access to essential services and opportunities such as housing, health care, education and employment, etc.

14. The Government agrees with CoP, and has all along been adopting a set of 24 multi-dimensional indicators (at **Annex**) that CoP recommended for monitoring the overall poverty situation in Hong Kong. Among these 24 poverty indicators, 18 are life-cycle based, covering children and youth, working people and adults, as well as elders, while the remaining six are community based, reflecting the difference in poverty situation across districts. Using these indicators, we can monitor the poverty situation in Hong Kong from different perspectives and identify the needs of different disadvantaged groups and people across different districts, which provide support for the formulation and evaluation of policies to assist the needy. These indicators are updated regularly and uploaded onto the website of the Labour and Welfare Bureau for the public's reference.

15. For those indicators relating to income, reference is made to the average payment of CSSA. CoP considered it appropriate to use this benchmark for delineating whether an individual was living in poverty because it was widely used and recognised as the threshold where the basic living requirements in our community could be met. If such a benchmark is employed as the sole criterion to define the size of the poor population, a total of 517 000 persons aged 0-59 were in poverty in 2008. Taking into account also the poor elderly persons⁵, the size of the poor would come to 714 900. Although the total population of Hong Kong kept growing over the years, the size of its poor population had been decreasing between 2003 and 2008. Nonetheless, as pointed out by CoP, we should be cautious in interpreting these figures because they are useful for general monitoring purpose only. Income indicators alone cannot reflect the actual poverty situation in Hong Kong.

Tackling Poverty

16. The Administration attaches great importance to poverty alleviation work and to this end, adopts a pragmatic and multi-pronged approach. We consider that the key to tackling poverty lies in promoting economic growth, thereby creating more job opportunities. In tandem, we provide training and retraining opportunities to raise the

⁵ Poor elderly persons refer to recipients of old-age CSSA and / or those living in private temporary housing and private shared units.

competitiveness and skills of our workforce, in particular the middle-aged and low-income earners. At the same time, we continue to invest in education and child development to enhance social mobility and reduce inter-generational poverty.

17. The Task Force on Poverty (TFP), headed by the Secretary for Labour and Welfare, was set up in 2007 to co-ordinate efforts across the Government in tackling poverty-related issues. It has duly followed up the 53 recommendations of CoP, many of which have already been implemented, including launching the \$300 million Child Development Fund pioneer projects; strengthening training and retraining to enhance the skills and competitiveness of young people as well as middle-aged and low-income earners; strengthening efforts to reach out to hidden and singleton elders; and implementing the Transport Support Scheme for employees living in remote districts. Currently, the Government is undertaking a legislative exercise on minimum wage, aiming at introducing an appropriate minimum wage system to safeguard the interests of grassroot workers.

18. Besides, the Government has introduced a number of special measures over the past two years to assist low-income households and people in need, having regard to the prevailing economic situation. For instance, we have provided additional one-off payments to recipients of CSSA and SSA, increased retraining resources, implemented short-term food assistance service projects, and expanded employment programmes. The Government has also been promoting tripartite partnership among the Government, the business sector and the non-governmental organisations through the Community Investment and Inclusion Fund and the Partnership Fund for the Disadvantaged, in order to help the disadvantaged groups achieve self-reliance. The TFP will continue to monitor the poverty situation through regular updating of the set of multi-dimensional indicators.

Labour and Welfare Bureau
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Indicators of Poverty

<i>Children / youth (aged 0-14 / 15-24)</i>
<ol style="list-style-type: none">1. Children aged 0-5 and 6-14 living in workless households2. Children aged 0-5 and 6-14 living in households with income below average CSSA payment3. Children aged 0-5 and 6-14 with single parent and in households with income below average CSSA payment4. CSSA recipients aged 0-5 and 6-14, and those aged 15-21 who are on child rate5. School attendance rate of youth aged 16-196. Persons aged 20-24 with tertiary education7. Non-engaged youth aged 15-19 and 20-248. Children aged 0-5 and 6-14 living in private temporary housing and private shared units
<i>Working people / adults (aged 15-59)</i>
<ol style="list-style-type: none">9. Persons aged 15-19 and 20-59 living in workless households10. Persons aged 15-19 and 20-59 living in households with income below average CSSA payment11. Unemployed persons aged 15-19, 20-24 and 25-5912. Persons unemployed for six months or longer, and 12 months or longer13. Employed persons aged 15-19, 20-24 and 25-59 working 35 hours or above per week and with monthly employment earnings less than 50% of the median14. Adult able-bodied CSSA recipients having been on CSSA for one year or less, and longer than one year15. Adult recipients of permanent disability / temporary disability / ill health CSSA
<i>Older people (aged 60 or above)</i>
<ol style="list-style-type: none">16. Recipients of old-age CSSA17. Number of elderly patients under the medical fee waiver mechanism of public hospitals and clinics18. Elderly persons living in private temporary housing and private shared units
<i>Community</i>
<ol style="list-style-type: none">19. Workless households by district20. Households with income below average CSSA payment by district21. Single parent households with income below average CSSA payment by district22. Median monthly household income by district23. Median monthly employment earnings by district24. Unemployed persons and unemployment rate by district