

### **Submission to the Subcommittee on Poverty of the Legislative Council**

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#### **Key Points**

- The most rigorous approach to setting a poverty line would be to use an expenditure-based approach; and
- Once consensus is reached on what essential goods and services should comprise a poverty budget, a Consumer Price Index (P) should be developed and deployed to monitor changes in the prices of goods and services most relevant to households in poverty.

#### **The Need for an Expenditure-Based Approach**

Media reports have suggested that, as a starting point, the Government intends to specify the poverty line as a fixed proportion of monthly median household income.

While this could be a starting point, such a method is no substitute for a rigorous, expenditure-based method of measuring poverty. At its root, a household in poverty is a household that does not have access to the goods and services necessary to function in society. In developing countries, these essential goods and services generally comprise food, clothing and shelter. In more advanced economies, other items are typically added to the list (e.g. access to telecommunications services). Ultimately, what is needed is a concept of what are the basic needs in Hong Kong's society. Without this concept, any line that the Commission on Poverty might seek to draw—even if it is pegged to median income—would necessarily be arbitrary.

Once consensus is reached on the items that should be present in the poverty budget (scaled up in an appropriate manner to account for households of different sizes), it is then a straightforward matter to calculate the minimum income necessary to purchase such items. When this is done, the poverty line will represent a clear and objective minimum standard of living for households in Hong Kong.

#### **The Need for a CPI(P)**

Looking ahead, it is important to not only draw a poverty line, but also provide for its adjustment. Unfortunately, none of Hong Kong's price statistics are suitable for this purpose. The closest, the CPI(A), is meant to reflect households with monthly expenditures between \$5,000 p.m. and \$20,500 p.m. (approximately), a range that captures 50% of local households. Such a measure is unlikely to reflect the situation of households in poverty. Therefore, a dedicated price index should be developed to update Hong Kong's poverty line from time to time.