

The Measurement of Poverty

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Prepared by

**Ms Eva LIU
Mr Jackie WU**

**Research and Library Services Division
Provisional Legislative Council Secretariat**

5th Floor, Citibank Tower, 3 Garden Road, Central, Hong Kong

Telephone : (852) 2869 7735

Facsimile : (852) 2525 0990

E-mail : library@plc.gov.hk

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THE MEASUREMENT OF POVERTY

PART 1 - INTRODUCTION

1. Background

1.1 In October 1997, the Provisional Legislative Council (PLC) Panel on Welfare Services requested the Research and Library Services Division (RLS) to conduct a research on the experience of constructing poverty line in an international context, covering international organizations and overseas communities, and on the studies conducted in Hong Kong on poverty measurement.

2. Objective and Scope

2.1 The objective of this research paper is to examine the experience of constructing poverty line in an international context for the Panel's reference.

2.2 The scope of the research, as agreed by the Panel, covers (i) an overview of the approaches in defining poverty; (ii) a discussion on the methods in measuring poverty and the problems involved; and (iii) an analysis of the researches on poverty line in an international context, covering international organizations and selected communities (i.e. the United States, Australia, the United Kingdom, the Republic of Korea, Singapore and Taiwan). It should be noted that the selected communities are all classified as high income economies by the World Bank, which is also the classification for Hong Kong; hence, their experiences would be relevant to Hong Kong. There is also an analysis on the studies conducted in Hong Kong on poverty measurement.

3. Methodology

3.1 The research involves a combination of information collection, analysis and interviews.

3.2 Requests for the necessary information were faxed to the government departments and independent research organizations in the United States, Australia, the United Kingdom, the Republic of Korea, Singapore and Taiwan. In Hong Kong, requests were channelled to the Social Welfare Department, relevant academics and research institutes.

3.3 This research report is based on the information obtained from these sources.

PART 2 - DEFINING POVERTY

4. Concept of Poverty

4.1 Poverty is defined as the inability to achieve a politically acceptable living standard, which is the definition adopted by the World Bank. Living standard is a near-synonym for real income, appropriately measured and after adjustments are made for goods and services produced and consumed at home, for income-in-kind and for household size and composition.

4.2 The setting of an acceptable living standard for use in defining poverty is an important policy matter. A connected issue for consideration by policy-makers is to determine the level at which public assistance payments should be made. If public assistance is intended for those without alternative resources, then it must be paid at a rate which is considered adequate to meet individual and family needs. A number of different theoretical approaches have been used to define poverty or to determine the level of public assistance in meeting the minimum acceptable standard of living.

5. The Need for Definition

5.1 The issue of poverty has received a lot of attention for decades. The concern is the identification of the poor. Both poverty research and social policy employ a wide variety of poverty definitions. However, all definitions may be fitted into one of the following categories:

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

5.2 Poverty according to the first category of definitions is absolute, poverty according to the second category is relative, and poverty according to the third category is a mixture of absolute and relative poverty. Defining the level of poverty according to the different definitions under these categories may result in different estimates of the number of poor people in the population.

5.3 This part discusses attempts to define poverty. The definitions of absolute (first category) and relative poverty (second category), as well as budget standards method and income proxy measure (grouped into the third category) are discussed below.

6. Absolute Poverty Approach

Definition

6.1 The absolutist approach to defining poverty begins with the concept of “minimum subsistence”, that is, some bundles of goods and services that are regarded as essential to the physical need of an individual or a family. Those who do not possess the economic resources to obtain these goods and services are considered poor. In the most severe conception of the absolute approach, this bundle of economic goods consists of the minimum caloric intake essential to human existence, and perhaps some forms of shelter.

6.2 This method of analysis was most commonly employed in the early period of this century. With the advancement of society and the enhanced expectations for a better quality of life, researchers nowadays seldom employ the absolutist approach. However, in places where abject poverty is still prevalent, such as Central Africa, the absolutist approach is still being used from time to time to determine minimum living standards.

Criticisms

6.3 The most severe criticism against the absolute approach is that within that approach, human needs are interpreted as being predominantly physical needs -- that is, for food, shelter and clothing -- rather than as social needs. People are not, it is argued, simply individual organisms requiring replenishment of physical energy. They are social beings expected to perform socially demanding roles such as parents, workers and citizens. They are not simply consumers of physical goods but producers of those goods and active participants in their societies. They are dependent on collectively provided utilities and facilities¹.

6.4 Moreover, the measurement of costs for food is a problematic matter. The amount and cost of the food which is eaten depend on the social roles played and the dietary habits observed, as well as the kinds of foods available in the market. Specifying the costs of meeting dietary needs is therefore very difficult.

6.5 In sum, the absolute poverty approach involves conceptual and methodological difficulties, including (i) the determination of necessities, and (ii) the quantitative assessment of the demand for necessities. Faced with these complexities, many researchers have suggested an alternative approach to defining poverty, one that depends on relative standards.

¹ The absolutist approach to defining poverty has been criticized by emeritus Professor TOWNSEND of Social Policy at the University of Bristol, the United Kingdom, who is the most authoritative researcher in this aspect. Please refer to items 26, 27 and 28 in the list of References for his works.

7. Relativist Poverty Approach

Definition

7.1 According to the relativist approach to defining poverty, the mean or median value of national income represents the economic indicator which corresponds to the dominant life style. An individual or a family whose income is less than that value can be defined as being on the poverty threshold, with no means to live in that life style. For example, a person or family with less than one half of the average after-tax income can be said as poor.

7.2 By defining poverty in these terms, the relativists can avoid to define “absolute needs” and put emphasis on the equitable distribution of income. The proponents of the relativist approach request the government to formulate policies in redistributing wealth in order to tackle the poverty problem.

7.3 The relativist approach to defining poverty originated in the 1960s from the critics of the welfare policy adopted by the United Kingdom. The United Kingdom was committed to eliminating poverty by providing various welfare services during the postwar period. Among the many critics of the postwar achievements of the United Kingdom government in this aspect, the theory of Professor TOWNSEND in the 1960s has been the most significant. His argument was that although government benefits had provided enough to prevent subsistence poverty for most, the poor people were no better off in terms of their position relative to the average standard of living in society. Relative poverty prevented people from participating in activities which were customary in the societies in which they lived.

Criticisms

7.4 There are a number of criticisms of the relative measure of poverty. First, it perpetuates poverty in the statistical sense that some fixed proportion of the population is always regarded as poor. Poverty therefore persistently exists. Second, while a relative measure of poverty can give an estimate of the size of the poor, it cannot provide any information on the quality of life of the poor. The government, therefore, has no information on the amount of assistance poor families need in order to reach an acceptable standard of living.

8. Budget Standards Method

Definition

8.1 The budget standards method to define poverty is based upon the determination of a list of necessities. Persons who cannot obtain all items on the list will be considered poor. It is an absolutist approach in structure but various socially determined essential needs are incorporated to form a set of budgets. In other words, the budget standards definition is based on the notion of a basket of goods and services, having the elements of “subsistence” and “basic minimums for social lives”.

8.2 In operation, an inventory of budget standards is assembled by determining the absolutely basic ingredients of human subsistence. Such a list may include minimum food, clothing, shelter and fuels. To this list of basic minimums we may add means of transportation, some recreational activities, and certain goods and services we deem appropriate, if not absolutely essential. Those persons who cannot afford all the items will be classified as poor.

Examples

8.3 The concept of budget standards has played a prominent part among international organizations, including the World Bank and the International Labour Organization. For details, see Part 4 - International Poverty Bands.

8.4 Another example of the budget standards method is the determination of Comprehensive Social Security Assistance (CSSA) Scheme rates in Hong Kong. Budget standards components are food, transportation, clothing and footwear, electricity and fuel, household goods, personal care goods, personal goods, social activities, health care expenses, furniture, electrical appliances and utility. Recommended rates for each expenditure component are given taking into account the ages of recipients. The amounts of payments are set at levels that are sufficient to allow recipients to have adequate economic resources, and to encourage their participation in social activities. For details, see Appendix 2 to the research paper entitled “Income and Expenditure Patterns of Low Income Households in Hong Kong” reference RP20 issued by our Division in 1995/96.

Criticisms

8.5 There are criticisms against this method. First, there is difficulty in producing generally acceptable criteria for selecting the items to be included into the list.

8.6 Second, the exposition of need also depends on the development of societies. Thus subjective value-judgments have to be made in the context of each community's economic circumstances to establish the components.

8.7 Third, it requires enormous efforts to develop a budget for such expenditure components and to keep each list up-to-date in line with changing social circumstances.

9. Income Proxy Measures

Methods

9.1 The income proxy method is a behaviourist approach based on people's consumption patterns. Data on household expenditure are used as an income proxy to measure poverty. The theory is based on the fact that the consumption patterns of various family compositions are the results of the relative competition between need and choice. Whether need or choice prevails depends on the amount of income earned by the families. In practical terms, low income families usually spend a greater proportion of expenditure on necessities, while better-off families will purchase more quality goods and non-necessities. Therefore, if researchers or governments can, from the data on household expenditure, identify a proper proportion of expenditure on necessities against the total expenditure, a poverty threshold can be worked out.

9.2 ORSHANSKY conducted researches on the consumption patterns of various family compositions in the United States in 1965. The findings in her studies were later used as the basis for further poverty research by the United States Social Security Administration. She argued that the average expenditure devoted to necessities could be used to determine the poverty threshold. She suggested that people were in poverty where the household spent more than 30% of their family expenditure on food. This provides an income proxy for poverty, based on the proportion of total expenditure spent on the purchase of necessities². However, the cut-off point need not be 30%, and the measure need not be restricted to expenditure on food³.

Criticisms

9.3 As societies are going through rapid changes, any standard devised in the past is difficult to be justified in new circumstances. Hence, these standards have to be recurrently checked in order to tie in with the development of social trends. However, the measures of ever-updating the standards would be costly and time-consuming. The concrete definitions of necessities are always controversial.

² The United States still applies the 1961 food-expenditure patterns in calculating the official poverty line in the 1990s.

³ Canada uses a level of 60% of spending on food, clothing and shelter.

10. Summary

10.1 Table 1 is a summary of different approaches to defining poverty.

Table 1 - Defining Poverty

Approach	Concept	Criticisms
absolute poverty	“minimum subsistence”	(1) it disregards the social needs of human beings. (2) the determination of necessities remains controversial. (3) it is difficult to quantify the necessities for existence.
relative poverty	an indicator relative to the value of national income	(1) some fixed proportion of the population is always regarded as poor. (2) the poverty figures cannot reveal the quality of life of the poor.
budget standards	“minimum subsistence” plus “basic minimums for social lives”	(1) the choice of necessities remains controversial. (2) subjective judgment is involved in updating the needs. (3) the work of updating an expenditure budget is huge and costly.
income proxy	consumption pattern, that is, the competition between choice and need is dependent upon the level of income	(1) consumption pattern changes with social development. (2) the work of updating the relevant data requires huge resources.

PART 3 - MEASURING POVERTY

11. The Disputes in Measurement

11.1 Academics, welfare practitioners, government officials and politicians have taken a keen interest in the construction of a poverty line. Politicians are increasingly keen in this respect as government policies have always been criticized as failing to solve the poverty problem.

11.2 There exists disagreement for the construction of a poverty line in theoretical and practical terms. As seen above, “defining poverty” has always been debatable. “Measuring poverty” is also fraught with disagreements and difficulties. In practice, there is no one agreed method in measuring poverty.

11.3 As researchers may use different methods to collect and analyse data in measuring poverty, the findings of these researches may therefore contradict one another. Thus we have to take great care to compare poverty across different societies.

12. Conceptual Issues in the Measurement of Poverty

12.1 The choice of variables will affect findings on the composition as well as on the size of the poor population, and hence the policy response will differ accordingly. The four key conceptual issues considered are the choice of poverty indicator, unit of analysis, and equivalence scales, as well as poverty head-count versus poverty gap.

Choice of Poverty Indicator

12.2 Income is always taken as a single indicator to measure poverty because total consumption of basic needs (e.g. food, housing and clothing) and essential needs (e.g. transportation and social activities) are difficult to quantify. In other words, income is taken as a proxy for living standards.

12.3 However, assessments of poverty based on income have to be qualified: assessing the standards of living by income alone may understate or overstate the level of living, if the composition of the families or the market supply situation are not taken into consideration. Some examples are useful to explain the concept. A family that can share in the consumption of others may have higher living standards than the total family income would permit. Elderly persons living with their children may benefit from their expenditure. Such considerations would lead one to expect the actual number of poor people to be less than the estimated number. Conversely, income may overstate the level of living when money alone cannot guarantee the ability to buy the necessary goods, for instance, if the required goods are not available in the market.

12.4 If income is used as a proxy for consumption, the reference period should capture permanent rather than transitory living standards. Therefore, using permanent income as the indicator would give a closer match than an indicator using current income. By the same token, indicators derived from annual income should be a better one than the one derived from income in a week or a month.

12.5 The level of income cannot fully reflect the actual standard of living of the poor. Governments usually provide non-income benefits such as public housing, health care and education, in order to enhance the quality of life of the poor. However, researchers usually could concentrate only on annual cash income component and rely on it to measure poverty. It is difficult to quantify these non-income social benefits while subjective value-judgments are also involved.

12.6 Taxation also affects the actual income of people and their quality of life. Income may be measured before or after deducting taxes, thereby producing different conclusions about the relative incidence of poverty. However, there is no definite rule in choosing this variable.

Unit of Analysis

12.7 The defining of units of analysis will affect the findings of the studies. The standard of living is dependent upon the consumption pattern. Scale of economy renders multi-member units more effective consumption of economic resources than individuals. Three definitions for unit of analysis are commonly used:

- Household - one or more persons, whether related or unrelated, who share common living quarters.
- Family - two or more persons living together (sharing common living quarters) who are related by blood or marriage.
- Individual - one single person.

12.8 In considering the choice among different units, it is important to note that the consumption attributes of different goods and services are different. Some items of consumption such as food are essentially individualistic, whereas others, such as housing, have some of the attributes of public goods as far as individuals in the household are concerned. For the latter, all members of the household enjoy broadly equal levels of consumption and living, but for the former, there may be inequality within the household. The distribution of benefits within the unit is difficult to observe. In practice, researchers usually use household as the unit of analysis, assuming that all within the unit share the same standard of living.

12.9 If poverty is measured with an individual as the unit of analysis⁴, and if the analysis is based on an individual's income, the result of the research will be different. As mentioned, if individuals with low income live in relatively well-off households, the living standards of its members are more directly related to the total income of the family than to their individual income. Hence, the number of people in poverty would be smaller if household is used as the unit of analysis.

Equivalence Scales

12.10 An equivalence scale gives the weight of the expenditure incurred by a family member against the wholesome of the unit of analysis. Allowances are made for the number of members in the unit and for their ages when determining their expenditure. This is particularly important when determining the standard of living of a non-individual unit of analysis. In practice, if the scale for an individual is 1.0, then the scale for a couple usually varies between 1.25 and 2.0. The scale for a child varies between 0.15 and 0.75⁵. Thus the choice of scale can significantly affect conclusions of the studies and the choice of equivalence scales may not be generally acceptable.

Poverty Head-count versus Poverty Gap

12.11 Counting the numbers of people, or households, below a poverty line is also contentious however. For this head count alone cannot reveal the extent of poverty of individuals or households. In other words, it does not tell us how far they are below the poverty line.

12.12 Thus determination of the poverty gap is necessary in measuring the extent of poverty. This distinction has a fundamental and guiding effect on the policy on poverty. The policies and resources required to lift out of poverty a large number of people just below the poverty line would be different from those required to raise the standard of living of a smaller number of people far below the poverty line.

⁴ If the basis for assessing poverty is a labour force survey, it would be more appropriate to take the individual as the unit of analysis.

⁵ This scale is used by the European Union.

13. Approaches in Measuring Poverty

Quantitative Approach

13.1 Much of the work on measuring poverty has been quantitative in nature, using statistical techniques to count the number of people in poverty. The advantage of quantitative measures is their scale and their anonymity. If a statistical survey employs a large sample and the respondents are carefully chosen, it can provide an objective picture of the broader group or society from which the sample is selected. Poverty research can then be based upon existing statistical information collected by governments or other international organizations.

13.2 When the official statistics only provides a limited picture of the extent of poverty, researchers have to collect their own data by conducting surveys to samples of study targets. However, collecting original data is costly and time-consuming.

Qualitative Approach

13.3 Any understanding of poverty requires a focus not just on overall numbers and trends, but also on the different individual experiences of the poor and the realities of poverty. Although quantitative approach of poverty has dominated much of poverty research, there is also a long history of qualitative descriptions of the experience of poverty. A typical example is the study conducted by ROWNTREE on poverty in the United Kingdom in 1901. More recent examples of that approach include the reports issued by Professor TOWNSEND in 1960s and 1970s detailing the lives of the poor in the United Kingdom, and a research report entitled *Hardship Britain* issued by Professor COHEN of the United Kingdom in 1992 describing the lives of and the problems encountered by the poor population in the United Kingdom.

13.4 Another example of qualitative approach is a research conducted for Hong Kong by the Hong Kong Caritas in May 1997. The report is entitled *The Different Faces of Poverty in Hong Kong*. The objective of this study is to contribute to the understanding of the different forms of poverty in Hong Kong. The report is available in the RLS Library.

14. Summary

- 14.1 There are four key conceptual issues in the measurement of poverty:
1. Concept : the choice of poverty indicator: income = living standards
Problems : (1) sharing consumption is more cost-effective than individual consumption;
(2) the standard of living, subject to changing market situation, might not be relevant to income;
(3) while income in-kind can enhance the standard of living, it is often ignored;
(4) while taxation can lower the standard of living, it is often ignored.
 2. Concept : unit of analysis: some items of consumption are individualistic while others can be shared (that is, sharing consumption is more cost-effective)
Problems : (1) the standard of living of individual members within a household \neq income;
(2) if a household is taken as a unit of analysis, the number of people in poverty would be smaller.
 3. Concept : equivalence scales: consumption needs to be adjusted according to family size, composition and the ages of family members
Problems : (1) the data on equivalence scales may not be generally acceptable;
(2) different studies, using different scales, may produce different results.
 4. Concept : poverty head-count versus poverty gap
Problem : (1) the number of people in poverty cannot reveal the actual standard of living: the extent of poverty of people living below a poverty line differs and so do their needs.
 5. The quantitative approach and the qualitative approach have their own merits and demerits.

PART 4 - POVERTY MEASUREMENT IN INTERNATIONAL CONTEXT

15. International Poverty Bands

The World Bank Poverty Bands

15.1 In its 1990 World Development Report, the World Bank, focusing on the issue of poverty, took a deep look into the issue and defined poverty bands using two figures: an annual per capita income of US\$275 (extreme poverty), which corresponded to the poverty line for India, and US\$370 per capita per year (poverty), which applied to a range of countries including Egypt, Kenya and Tanzania. The amounts were in constant 1985 purchasing power parity (PPP) rates⁶.

15.2 For ease of international comparison, the World Bank crudely estimates poverty lines for various regions. The estimated poverty lines are based on consumption of goods and services (i.e. budget standards method). The poverty line for regions in abject poverty, such as Mozambique, Ethiopia, Chad and Zaire, is set at US\$1 a day per person. A poverty line of US\$2 a day is estimated for Latin America. For eastern Europe and the republics of the former Soviet Union, a poverty line of US\$4 a day is used. Among high income economies, a poverty line corresponding to the United States poverty line of US\$14.4 a day per person is used as the poverty indicator. Hong Kong, together with Saudi Arabia, Spain, Japan, Switzerland and France, is classified as high income economies. Since the social conditions of countries differ from one to another, the World Bank is not able to construct poverty lines for countries. The regional poverty lines currently estimated by the World Bank are only roughly-derived lines.

Table 2 - The Poverty Lines Estimated by the World Bank¹

Regions	Consumption Per Capita (US\$)	
	Daily Average	Yearly Average
regions in abject poverty	1.0	365
Latin America	2.0	730
eastern Europe, the former Soviet Union	4.0	1,460
high income economies	14.4	5,256

Note : ¹ The budget standards method is used in defining poverty

⁶ The PPP conversion factor is defined as the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as one dollar would buy in the United States. Please note that while the PPP for 1998 has been higher than that for 1985, the World Bank has not made corresponding adjustment to the PPP for 1998.

The International Labour Organization Poverty Line

15.3 The International Labour Organization (ILO) believes that the budget standards method should be used to interpret poverty and that the poverty line can be set at the level of expenditure (or income, consumption) required to meet minimum food and non-food needs. Although the ILO has not constructed any poverty line for any specific country or region, it has been actively organizing international seminars and enacting international conventions on labour safety. It also actively proposes that every government should protect the rights and benefits of workers, create employment opportunities and provide sufficient social security to eliminate poverty. ILO guidelines are also in place for the determination of the amount of compensation payable to victims suffering from accidents at work, in order to ensure that workers do not have to live in poverty. The calculation method is also based on the budget standards method.

The Inter-American Development Bank Poverty Line

15.4 The Inter-American Development Bank defines poverty in terms of local currency. The line reflects the cost of a nutritionally-sound diet and the food cost is multiplied by a factor which allows for expenditures on non-food items. This multiplier varies between 2.0 and 2.5 for different countries. This is an example of the budget standards method.

The Asian Development Bank Poverty Line

15.5 The Asian Development Bank has not derived any poverty line.

The European Union Poverty Line

15.6 The poverty line is defined as half the average after-tax household income, mainly for reasons of practical convenience. The concept is relative poverty.

Observations

15.7 It can be observed from this review that most international organizations have followed essentially similar methodologies, that is, the budget standards method, in deriving their poverty lines.

Table 3 - The Methods Used by International Organizations in Deriving Poverty Lines

International Organizations	Methods Used in Defining Poverty
The World Bank	Budget standards method
The International Labour Organization	Budget standards method
The Inter-American Development Bank	Budget standards method
The European Union	Relative income

15.8 As the European Union uses the concept of relative income to define poverty, poverty always exists owing to income inequality.

16. The United States Official Poverty Line

Historical Developments

16.1 The federal government adopted an official poverty line in 1969, using the income proxy method, for the purpose of measuring the extent of poverty and drawing up its policy on poverty accordingly. The data on poverty could facilitate the government in determining the proper level of public assistance and the proper amount of compensation for labour victims in accidents at work. In 1992, the United States National Academy of Sciences proposed alternative methods to measure income.

16.2 Concern with official measurement of poverty dated to the early 1960s when a crude method of assessment was used by the Council of Economic Advisers which set a poverty threshold of an annual amount of US\$3,000 for a typical family of two adults and two children, and of US\$1,500 for an individual. However, the Council's poverty line was not adjusted for varying family size. The rationale behind the Council's poverty threshold was based on the budget standards method, comprising the elements of subsistence and essential goods and services.

16.3 In 1963, ORSHANSKY, working for the Social Security Administration (SSA), used income proxy measures for transforming the Council's poverty threshold into a set of comprehensive poverty budget. She first made adjustments for family size, then for varying family needs based on whether or not the family lived in a farm, whether the family was headed by a man or woman, and the number of children. Using these four variables, she identified 124 family types and calculated an appropriate poverty budget for each one.

16.4 A survey in 1961 showed that average households spent one-third of their income to purchase food to meet dietary needs. Hence, the cost of essential diet multiplied by three was deemed to be the poverty threshold. ORSHANSKY derived the poverty line on the basis of this finding. The poverty line adopted by the federal government in 1969 was based on the results of this calculation method.

The Current Official Poverty Line

16.5 Despite the considerable sophistication of the 1969 SSA poverty line, it was not considered as perfect nor should it be kept static. It was recognized that the SSA poverty line would require repeated upward adjustments in order to reflect rising prices and improving living standards. Such repeated upward adjustments can also reflect the concept that essential items for modern-day living may have to be included for calculation over time.

16.6 The United States poverty line now in use has been revised to account for the rising prices of goods and services, but not for the new necessities brought by an increasingly higher standard of living. The increased dollar amount of the official definition does not imply in any way a higher standard of living for the poor. The official poverty line makes adjustments only for inflation.

Poverty in the United States

16.7 The United States Bureau of Census does a household survey every March. In the survey they ask people how much they received in the previous year. By comparing the reported income with the poverty threshold, the Census Bureau determines who is poor.

16.8 In 1996, the number of people below the official poverty level was 36.5 million, representing 13.7% of the population. The dollar value per year for poverty threshold varied between US\$7,995 for an individual and US\$34,917 for a family with nine or more members. The poverty threshold varies according to the size and composition of families. The income deficit for families in poverty (the difference in dollars between a family's income and the poverty threshold) averaged US\$6,252 in 1996.

16.9 It should be noted that the number of persons in poverty increased from 25 million in 1970 to 36.5 million in 1996. Academics in the United States have pointed out that the major reason for the increase was the reduction of social welfare services in order to control the budget deficits. Meanwhile, in terms of poverty rate, the percentage was stable, staying at around 14% during this period.

Major Criticisms of the Official Poverty Line

Methodology for Constructing the Poverty Line

16.10 A major critique of the official poverty line centres around the basic standard used to define poverty. As noted earlier, the poverty thresholds are updated each year for rising prices but average living standards may rise with social development and economic growth. Rising prices could not fully reflect rising living standards. Therefore, the real value of the poverty line, adjusted for rising prices only, may not increase at all. As a result, the poverty standard is below the average standard of living today than when it was originally designed.

16.11 One consequence of rising living standards is that people may spend a smaller fraction of their income on food. The official poverty line is based on a food budget and the observation that poor people spend one-third of their income on food. Since the consumption pattern of American families has changed over time, the existing poverty line cannot reflect the true picture.

In-kind Income

16.12 Another deficiency of official poverty statistics is that they count only a family's cash income. Yet most low-income families, for example, receive free health care services and subsidised housing. The government provides these goods and services to the poor directly instead of giving cash. As a result, low-income families do not need as much cash income to maintain a given standard of living. Therefore a family's cash income alone cannot reflect the actual living standard of that family.

16.13 The Census Bureau ignores the in-kind income but includes such families in its poverty count, thereby over-estimating the size of the poor population.

Under-reporting of Income

16.14 The official poverty count is also distorted by under-reporting of income. People may not disclose all their income to the Census Bureau because they fear higher taxes or welfare reduction. If people engage in the under-reporting of income, the size of the poor population will be exaggerated in the official poverty counts.

Incidence of Taxation

16.15 The official poverty line is based on gross income and takes no account of taxes. It is claimed that the standard of living of low-income earners would be affected since their after-tax income would be lower and this would increase the poverty population.

The Uncounted Poor

16.16 The official poverty count might be smaller than the actual number of poor people because the Census Bureau does not count everyone. The Census surveys are directed at households and so fail to include people without a fixed address, and those who reside in hospitals or prisons.

Alternative Measurement

16.17 To address these concerns, the National Academy of Sciences had alternative definitions of poverty in 1992. Two categories of issues concerning the official poverty measure were raised by the Academy: issues concerning the measurement of income and issues regarding the determination of the poverty thresholds. Using the alternative definition of income that added the value of non-cash transfers to post-tax cash income from the private and government sectors would result in 27.1 million people being poor, and a corresponding poverty rate of 10.2%. That poverty rate was 3.5% lower than that calculated by the SSA which stood at 13.7%.

16.18 The Government of the United States provided information on two formulae for measuring poverty. The one constructed by the SSA has been recognized as the official poverty line.

17. Australia Quasi-official Poverty Line

Poverty Measurement

17.1 In reply to the inquiry of our Division, the government official of the federal government of Australia claimed that there was no official poverty line in Australia, and it was unlikely that such a line would be constructed in future. The reason was that it was difficult to get a consensus on the definition and the measurement of poverty.

17.2 However, a poverty line had been devised by Professor HENDERSON for the 1960s study on poverty in Australia. The HENDERSON poverty line is updated every quarter by the University of Melbourne and the National Institute for Economic and Industry Research, Melbourne. In view of the absence of an official poverty line and the long history of the HENDERSON poverty line which provides continuously updated information for ease of comparison across different periods, the HENDERSON poverty line has all along been regarded by social welfare agencies and academics as the quasi-official poverty line in Australia.

Methodology for Constructing the HENDERSON Poverty Line

17.3 The HENDERSON poverty line was based on annual after-tax cash income. Actual income was adjusted by an equivalence scale to obtain an equivalent income. An equivalence scale attempts to take into account such elements as the increase in expenditure as a result of working, and the economies of scale involved in living as a family rather than alone. For instance, if the equivalence scale for a couple (not working) is 1, and that of a single person is 0.7, it means that the single person needs 70% of the income of the couple to reach the same standard of living.

17.4 The next task was to draw a line that distinguished the poor from the non-poor, based on the equivalent income. HENDERSON used the basic wage⁷ in Melbourne plus child endowment as the poverty indicator for a typical family consisting of a working husband, a wife at home and two children. In other words, a household whose equivalent income was less than this indicator might be considered as poor. The belief was that the use of the basic wage in Melbourne as the indicator of poverty would lessen the arbitrary element since the basic wage represented the social needs of the average employees. In other words, this concept of measurement is the budget standards approach.

17.5 The next procedure was to decide on how the poverty line should be updated. The original poverty line for the standard family was the equivalent of 56.5% of seasonally-adjusted after-tax average-weekly-earnings (AWE) in 1966. However, since 1981, the line has been updated with reference to changes in after-tax income. In the second quarter of 1997, the poverty line for standard families was fixed at A\$450 per week.

⁷ At the beginning of this century in Australia, the Melbourne government determined the basic wage by the budget standards approach. Such a practice could date back to 1907 when Justice HIGGINS, who was responsible for a study on the reasonable level of basic wage, advised in a report that an ordinary worker required a daily wage of seven shillings to play a meaningful part in life. By a meaningful part in life, it means the ability to meet the minimum needs for necessities and social life.

Criticisms of the HENDERSON Poverty Line

Use of Current Income

17.6 Current income is not a preferred tool to measure the standard of living. The amount of income does not tell us what other resources people have access to, such as the entire range of government welfare services. Moreover, it is difficult to measure income accurately, and errors are always found in surveys.

Defining Poverty

17.7 Professor HENDERSON used the Melbourne basic wage as a poverty indicator to reflect the social needs of the working class. However, there is criticism that the basic wage cannot be taken as a poverty indicator because it only reflects the productivity of workers. Hence, the use of this poverty indicator is not fully justified.

Updating Problem

17.8 The original poverty line bore the concept of the budget standards method, which is an enlargement of absolute poverty. However, the method of its updating is relative: as the national income changes, the poverty line is adjusted to match the changes. People whose income had remained exactly on the poverty line since its inception would have had an income that always bore the same relationship to national per capita income. In other words, their standing relative to the community would not have changed. However, since the income variable has risen faster than inflation, the poverty line in the 1990s was about 30% higher in real value than in the 1970s.

17.9 However, because of the rise in the real income, people would have different baskets of necessities. Meanwhile, the poverty line does not consider changes in costs and the changing definitions of necessities.

Assessing the Adequacy of Social Security Payments

17.10 To address the issue of poverty, the Australian government is currently undertaking various research projects and different methodological approaches are employed to measure poverty and to assess the adequacy of social security payments.

17.11 A pilot survey is being conducted to assess the consumption patterns of the recipients of social security payments as well as the percentage of assistance payments spent on necessities, and to study the relationship between different levels of consumption and the amount of social security payments, as well as their demographic characteristics.

17.12 In addition, a budget standards study is undertaken by the Australian government to develop budget standards for different household types - different priced baskets of goods and services for different standards of living. This research would offer insights into various aspects of the issue of poverty such as the cost of living, equivalence scales and the costs of working. This study would be useful for the government to better understand a broad range of policy issues in Australia.

17.13 The Australian Bureau of Statistics is also conducting a study on the feasibility of carrying out a national survey on the living standards in Australia. This would provide a better understanding of the relative living standards of different groups of households by considering both cash income and non-cash income factors.

18. The United Kingdom Quasi-official Poverty Lines

Poverty Measurements

18.1 The United Kingdom does not have an official poverty line. However, two quasi-official poverty lines are commonly used to measure the level of poverty in the country and to identify those who should be regarded as poor. In view of the absence of an official poverty line, these two lines have been useful in providing information over a prolonged period for ease of comparison. These two lines have therefore been regarded by social welfare agencies and academics as the quasi-official poverty lines in the United Kingdom.

18.2 The two measures of poverty are based upon the data included in the annual Family Expenditure Survey. This recurrent survey of about 9 000 households presents evidence on the expenditure patterns of households of different composition and income levels.

Poverty Line Based on the Level of Social Assistance

18.3 The first poverty line is based on the level of social assistance (the term “income support” (IS⁸) is commonly used in the country for the assistance provided by the government) as a baseline for the definition of poverty. A family with an income on or below the social security payment level is in poverty.

⁸ Income support covers basic needs such as the costs of housing, food, clothing, fuel, lighting and miscellaneous household items.

18.4 The United Kingdom Social Security Department determines income support level by the budget standards method which involves a mixture of absolute and relative features. The government regards the IS level as the minimum level for subsistence at any particular time. It is adjusted in accordance with the family size. In 1996, the IS level for an individual was £27.5 per week and for a couple was £71.7 per week.

Criticisms of the Poverty Line

18.5 The use of IS to define poverty is tautological. If the government were to raise the level of IS in response to political pressure to alleviate poverty, then the number of people in poverty might appear to increase; or if it were to lower the level as a result of a decision to reduce government expenditure, then the number in poverty might appear to be reduced. A logical definition ought to operate in exactly the reverse direction.

18.6 The measure of income at the level of families fails to tell us about the distribution of poverty and income between different family members. In addition, the measure fails to include the homeless.

Poverty Line Based on Average After-tax Household Income⁹

18.7 The second poverty line is defined as half the average after-tax household income. A household with an income less than such amount is classified as poor. In 1995, the average after-tax household income in the United Kingdom was £295 per week.

18.8 This measure is based on the relative poverty concept, which places the discussion of poverty within the context of the prevailing living standards of the whole population, rather than on some estimates of basic or subsistence requirements.

Criticisms of the Poverty Line

18.9 The use of the relative poverty approach is inappropriate. The relative differences are merely inequalities which exist in any society.

18.10 The setting of the poverty level at 50% of the national average income is arbitrary. It can be argued that the poverty line is too low or too high, thereby underestimating or overestimating the poverty level.

⁹ This method follows the practice of the European Union in deriving its poverty line.

18.11 Moreover, such a measure assumes that the statistical data upon which the calculation is based is accurate and periodically updated. This assumption may not be true as there are errors in surveys.

18.12 The relative measure cannot provide any information on the quality of life of the people.

18.13 The measure of income at the level of households fails to tell us about the distribution of poverty and income between different household members. In addition, the measure fails to include the homeless.

19. The Republic of Korea

Estimation of Minimum Living Cost

19.1 The Korean government does not adopt any official poverty line. However, there are studies on minimum living cost (MLC). The Korean government uses the budget standards method in measuring MLC.

19.2 The government indicated that the estimation of MLC was important in protecting basic living standards of the people. The MLC was used as the guideline for determining basic pension amounts, the amount of allowances payable to the people, and the minimum wage level.

Methodology of the Estimation of Minimum Living Cost

19.3 Nationwide surveys were conducted twice in 1994 by the Korean government. The first, responded by 3 000 households, gathered information relating to their incomes and assets. The second incorporated the daily records of 60 kinds of household expenditures in June 1994 and the expenditure on six meals prepared in two designated days in that month.

19.4 Consumption of all items, such as food, housing, medical care, and education were surveyed and used in estimating the minimum cost of each item.

Results of the Surveys

19.5 Using the basket of necessary goods and services, the sum of minimum costs for a two-person household per month was 356 000 won (US\$445)¹⁰ and 667 000 won (US\$834) for a four-person household per month.

¹⁰ The 1994 average exchange rate was US\$1 = 800 won.

19.6 The MLC for a four-person household can be applied to arrive at an estimated MLC for households of different sizes and characteristics. As a rule, consumption expenditures rise in a smaller proportion than the rate of household size because furniture and electrical appliances are shared by all members in the household. Also, households with elderly members spend less on food, transportation and education than those with small children. The government then readjusts the standard MLC in family size and composition.

Poverty Line Studies Conducted by Academics

19.7 A number of studies on poverty have been undertaken by scholars and independent researchers in Korea. Owing to differences in analytical methods, reference years, and the coverage of surveys, the findings from one study inevitably differ from those of others. Among these studies, the joint research on poverty conducted by Sang Mok SUH and the Korea Development Institute in 1988 has been internationally recognized. The ILO treats their study on poverty line as the standard of poverty in Korea.

19.8 SUH used the income proxy method to measure poverty, studying the percentage of income spent on necessities. The poverty line was defined as 121 000 won (US\$178)¹¹ per month at 1981 prices for a five-member family. However, our Division has not been able to obtain the details of each step in calculating the poverty line.

19.9 Academic researchers emphasize that the major bottleneck in poverty studies in Korea lies in data collection. As the relevant statistics compiled by the statistical agencies are not readily applicable to poverty studies, almost all such studies rely on data from sample surveys designed by the researchers. However, it is not a simple task to conduct a sample survey on poverty. The data collection process is both time-consuming and costly.

20. Singapore

Poverty Measurement

20.1 The government does not have any official poverty line to quantify the extent of poverty. Meanwhile, citizens receiving allowances from the Public Assistance Scheme are generally classified as poor. In terms of relative poverty, the bottom 20% of the per capita household income distribution would be taken to represent the poor.

¹¹ The 1981 average exchange rate was US\$1 = 680 won.

Public Assistance Scheme¹²

20.2 Singapore citizens who are unable to work because of illness, age, disability or unfavourable family circumstances, and who do not have any means of support and have no one to depend on, may seek financial aid under the Public Assistance Scheme. There is a means test for the scheme.

20.3 In 1995, the monthly allowance provided ranged from S\$180 (US\$124)¹³ for a single-person household, to S\$535 (US\$369) for a household with four or more persons. The national per capita income in 1995 was S\$30,770. In terms of the yearly value, the public assistance payable to the recipients accounted for only 7% of the national per capita income. In 1995, about 87% of those on the Public Assistance Scheme were citizens over 60 years of age.

20.4 In Singapore, welfare assistance is given only to those who are totally disabled or chronically ill, having no independent means of financial support. To encourage those who can still work to join the workforce again, unemployment benefits and other forms of financial aid are not available to those citizens who are poor but not destitute. Even for those eligible for welfare assistance, cash allowances have been minimal. This is to encourage self-help and help from family members.

Difficulties in Formulating Poverty Line

20.5 The Singaporean government has indicated that there are difficulties in formulating poverty line. These include:

- the items to be included in the basket of goods and services - should these be bare necessities or should some “luxury items” such as refrigerators and television sets be included;
- the costing of the items selected; and
- determining the levels of consumption for different household size, household composition, condition of health of family members, etc.

20.6 In sum, the major problem in formulating poverty line would be that it is difficult to get a consensus on the composition of the basket of goods and services, the costing of these items and the consumption levels.

¹² The housing and medical needs of most Singaporeans are provided for through personal savings in the Central Provident Fund (CPF). The CPF, as a form of social security, provides for old-age financial support and thus reduces poverty after retirement.

¹³ The average exchange rate in 1995 was US\$1 = S\$1.45.

21. Taiwan

Minimum Living Cost Measurement

21.1 There is no official poverty line in Taiwan. The government of the province and the city has the authority in determining its annual minimum living cost (MLC). However, there is no one agreed approach in calculating the MLC. The city governments of Taipei and Kaohsiung adopt different methodologies in the calculation.

21.2 In Taipei and Kaohsiung, the governments provide a living allowance to the people in poverty. It should be noted that the amount of living allowance is less than the MLC so as to maintain work incentive.

Methodologies in Determining the Minimum Living Cost

Taipei

21.3 The Taipei city government uses the budget standards method in calculating the MLC. The determination of the MLC is based on the data of two surveys conducted by the Taipei city government, namely Low-income Household Income Survey and Household Monthly Expenditure Survey. The MLC per person is equal to 40% of the average household recurrent expenditures. In 1993, the monthly MLC was NT\$5,730 (US\$229)¹⁴ per person.

Kaohsiung

21.4 In Kaohsiung, the city government uses the relative poverty approach. The determination of the MLC is based on the survey of Incomes of the Low-income Households in Kaohsiung. A household with an income on or below one-third of the household disposable income is classified as poor. In 1993, the monthly MLC was NT\$4,650 (US\$186) per person.

22. Observations on Overseas Communities

22.1 The United States has an official poverty line. However, Australia, the United Kingdom, the Republic of Korea, Singapore and Taiwan do not have any official poverty line.

22.2 Australia and the United Kingdom have their quasi-official poverty lines. The Republic of Korea and Taiwan conduct studies on minimum living costs (serving a similar function as a poverty line) in determining the social security payments.

¹⁴ The average exchange rate in 1993 was US\$1 = NT\$25.

22.3 There are a number of criticisms against the official and quasi-official poverty lines used in the United States, the United Kingdom and Australia. The Australian and Singaporean governments have highlighted the practical problems in constructing poverty lines.

22.4 There is no one agreed approach to constructing a poverty line. The budget standards method is more popular, being used in Australia and the United Kingdom (the poverty line based on the level of social assistance). Most of the Asian communities -- such as the Republic of Korea and Taipei - also use the budget standards method to calculate the minimum living cost.

22.5 When asking for information from the governments in overseas communities, our Division requested that explanation be given if no official poverty line was constructed in their economies. However, only the Australian and Singaporean governments gave explanations in this regard. Scholars in Hong Kong have explained that overseas governments are reluctant to draw an official poverty line. If the official poverty line is determined at a high level, the government would have to increase the social welfare expenditures. However, overseas governments have to control expenditures in tackling the budget deficits problem, especially during periods of economic uncertainties. Meanwhile, if the official poverty line is too low, other political parties and pressure groups would criticize the government.

23. Summary

Communities	Official Poverty Line	Defining Poverty	Measuring Poverty	Poverty Threshold ¹
United States	available (1969), constructed by SSA	income proxy	Proportion of expenditure on food	Ranging between US\$7,995 for an individual and US\$34,917 for a 9-member family (1996)
Australia	nil	quasi-official: HENDERSON poverty line constructed by budget standards method but updated by relative income	Melbourne basic wage plus children endowment	A\$450 per week for standard families in the second quarter of 1997.
United Kingdom	nil	quasi-official lines: (1) "income support" level: budget standards method (2) relative income	the level of social assistance 50% of the average after-tax household income	In 1996, the IS level for an individual was £27.5 per week and that for a couple was £71.7 per week. In 1995, the average after-tax household income was £295 per week.
Republic of Korea	nil	minimum living cost: budget standards	the costs for maintaining minimum living standards	In 1994, US\$445 per month for 2-member household and US\$834 for 4-member household.
Singapore	nil	(1) eligible for assistance under the "Public Assistance Scheme" (2) relative income	Recipients of Public Assistance the bottom 20% of per capita household income	US\$124 per month for an individual to US\$369 for 4-member household (1995) The national per capita income in 1995 was US\$30,770 ² .
Taiwan	nil	(1) Taipei: budget standards (2) Kaohsiung: relative income	the costs for maintaining minimum living standards 33% of the household disposable income	US\$229 per person per month (Taipei)(1993) US\$186 per person per month (Kaohsiung) (1993)

Note: ¹ The poverty thresholds for different communities, adjusted for different family compositions, are derived by reference to different years and by different methods. It is therefore not justifiable to put them on a par. The above list of poverty thresholds serves to give a rough idea of how one poverty threshold may compare to others.

² The household income distribution is not available.

PART 5 - STUDIES ON POVERTY MEASUREMENT IN HONG KONG

Reasons for Hong Kong Government Not Constructing Poverty Line

24.1 Hong Kong Government has not constructed an official poverty line on the grounds that there is no scientific method for drawing a poverty line nor is there an objective definition of poverty, and that any such attempt would involve subjective value judgement.

24.2 Government officials have pointed out that in all economies, economic growth is the primary means of generating income increases for the community. Given Hong Kong's continued economic growth during the years from 1986 to 1996 (by an annual average of 14.4% in nominal terms or about 6% in real terms), income for every income group has registered substantial gains over the same period. This includes households in the low income group. Reflecting this, the median monthly household income in Hong Kong at current prices increased by 224% from \$5,400 in 1986 to \$17,500 in 1996. If calculated in terms of per capita Gross Domestic Product at 1990 prices, it shows that the amount increased by 54% from \$81,528 in 1986 to \$125,762 in 1996.

Table 4 - Comparison of per capita gross domestic product (at 1990 prices) and median monthly household income in Hong Kong (at current prices) during the years from 1986 to 1996 in terms of Hong Kong dollars

	Per Capita Gross Domestic Product (at 1990 prices)	Median Monthly Household Income in Hong Kong (at current prices)
1986	81,528	5,400
1987	91,168	6,100
1988	97,609	6,900
1989	99,076	8,300
1990	102,121	9,400
1991	106,401	10,800
1992	112,119	11,700
1993	116,967	13,000
1994	120,540	15,000
1995	122,778	16,000
1996	125,762	17,500

Source: Census and Statistics Department and the Hong Kong Annual Digest of Statistics 1997 edition

24.3 The Government provides very extensive welfare services which include free/subsidised education services, low cost public housing, subsidised medical care, retraining and other government subvented welfare services, all of which contribute to improving the living standards of the disabled, the elderly, the single parents and the low income households. Therefore, when studying poverty, it is inappropriate to describe the living standard solely by reference to income without taking into account the various welfare services provided by the Government.

24.4 The Government implements the Comprehensive Social Security Assistance (CSSA) Scheme in parallel with those welfare services. The present system of CSSA is structured upon a set of basic needs of recipients, aiming at providing a safety net for those in financial difficulties. Payments are adjusted annually in line with inflation, and reviews of the level and structure of payments are carried out from time to time within what the Budget can afford.

24.5 Academics in Hong Kong (Professor Nelson CHOW of the University of Hong Kong and Dr Samuel LUI Hon-kwong of the Lingnan College) have explained that while there is no official poverty line in Hong Kong, the number of CSSA recipients can directly reflect the extent of poverty here since the budget standards method is used in determining CSSA rates. This method is both simple and appropriate. An analysis on the CSSA system in Hong Kong is set out in the following paragraphs.

An Analysis on Comprehensive Social Security Assistance Scheme

Background and Review Methodology

24.6 The Government set up a steering group¹⁵ in March 1995 to review the social security arrangements. The review aimed to examine the effectiveness of the social security system and the adequacy of benefits in meeting the needs of recipients.

24.7 The steering group adopted two approaches in reviewing the adequacy of the assistance rates - the Basic Needs Budget (BN) approach (i.e. the budget standards method) and the Household Expenditure Survey (HES) approach. The BN approach provides a baseline below which the standard rates should not be allowed to fall. The results of the HES provide an indication by reference to actual expenditure to suggest which categories of recipients might justify higher rates above the BN baseline.

¹⁵ The steering group is chaired by the Director of Social Welfare. Its members include Assistant Director of Social Welfare (Social Security), Chief Social Security Officer 2, Senior Statistician of the Social Welfare Department, Administrative Assistant to Director of Social Welfare, Deputy Secretary for Health and Welfare, Principal Assistant Secretary for Health and Welfare (Welfare) 1, Principal Assistant Secretary for the Treasury (A) and Deputy Commissioner for Census and Statistics.

The Methodology used in the determination of CSSA rates

24.8 The budget standards method is adopted in the determination of CSSA rates in Hong Kong. Budget standards components are food, transportation, clothing and footwear, electricity and fuel, household goods, personal care goods, personal goods, social activities, health care expenses, furniture, electrical appliances and utility. Recommended rates for each expenditure component are given taking into account the ages of recipients. The amounts of payments are set at levels that are sufficient to allow recipients to have adequate economic resources, and to encourage their participation in social activities. For details, see Appendix 2 to the research report entitled "Income and Expenditure Patterns of Low Income Households in Hong Kong" reference RP20 issued by our Division in 1995/96.

24.9 The choice of food items for each age group¹⁶ was made by the steering group based on the advice of government dietitians. The cost of the food items was then calculated by applying the average retail prices of the lowest 50% price range provided by the Census and Statistics Department. The major difference among various age groups is their requirements on rice, meat and fresh vegetables. The elderly is assumed to require less rice, meat and vegetables than the adult and youngsters. The Government then calculates the amounts of assistance required by households of various compositions to meet their basic requirements for food.

24.10 For most of the non-food items¹⁷, the quantity and consumption life span were estimated by the steering group. The cost was then calculated by applying the average retail prices of the lowest 50% price range. For items such as fuel, light and transport, the expenditure pattern of the lowest 5% non-CSSA income group was adopted. The Government then calculates the amounts of assistance required by households of various compositions to meet their basic requirements for these commodities and services. The Government has pointed out that the costing of the list of items in the BN baskets is inevitably a subjective exercise.

24.11 The Government then determines the rate of payment of CSSA on the basis of the expenditure required for the BN baskets for different families. Moreover, the standard rates are reviewed and adjusted annually in accordance with the forecast increase in the Social Security Assistance Index of Price (SSAIP) which reflects the changes in the purchasing power of the CSSA rates. SSAIP is determined by three components: (i) a basket of commodity and service items covered by the index (comprising items listed in paragraphs 24.9 and 24.10), (ii) the weighting factors of individual commodity and service items, and (iii) the average retail prices of individual commodity and service items.

¹⁶ Food items include rice, meat, vegetable, egg, fruit, milk powder, milk, bread, oil, tea, etc.

¹⁷ Non-food commodities and services include clothing and footwear, durable goods, miscellaneous goods, miscellaneous services, transport and vehicles as well as fuel and light.

Number of CSSA Cases and Recipients, and the Amount of Payments granted

Table 5 - Number of CSSA Cases

Category	Number of cases ¹ in 1994/95	Number of cases ¹ in 1995/96	Number of cases ¹ in 1996/97	Number of cases ² as at December 1997	Change in number of cases between 1995/96 and 1996/97	% change in the number of cases between 1995/96 and 1996/97
Old age	72 468	84 243	98 765	109 150	+14 522	+17.2%
Single parent family	6 453	8 982	13 303	15 849	+4 321	+48.1%
Low earnings	991	1 814	3 102	4 148	+1 288	+71.0%
Unemployed	5 302	10 131	14 964	16 976	+4 833	+47.7%
Ill and disabled ³	19 659	24 508	29 760	33 239	+5 252	+21.5%
Others	4 588	6 523	6 826	7 570	+303	+4.6%
Total	109 461	136 201	166 720	186 932	+30 519	+22.4%
Number of new applications	49 906	63 154	76 350	59 290 ²	+13 196	+20.9%
% of new applications to total number of cases	45.6%	46.4%	45.8%	Not applicable	Not applicable	Not applicable

Note : ¹ A case refers to a single person or a family. A year refers to a fiscal year from 1 April to 31 March.

² Refer to the figures recorded from 1 April 1997 to the end of 1997.

³ This category comprises blind, deaf, physically disabled, mentally ill and other categories of disabled/ill health cases.

Source : Social Welfare Department and the Hong Kong Monthly Digest of Statistics December 1997.

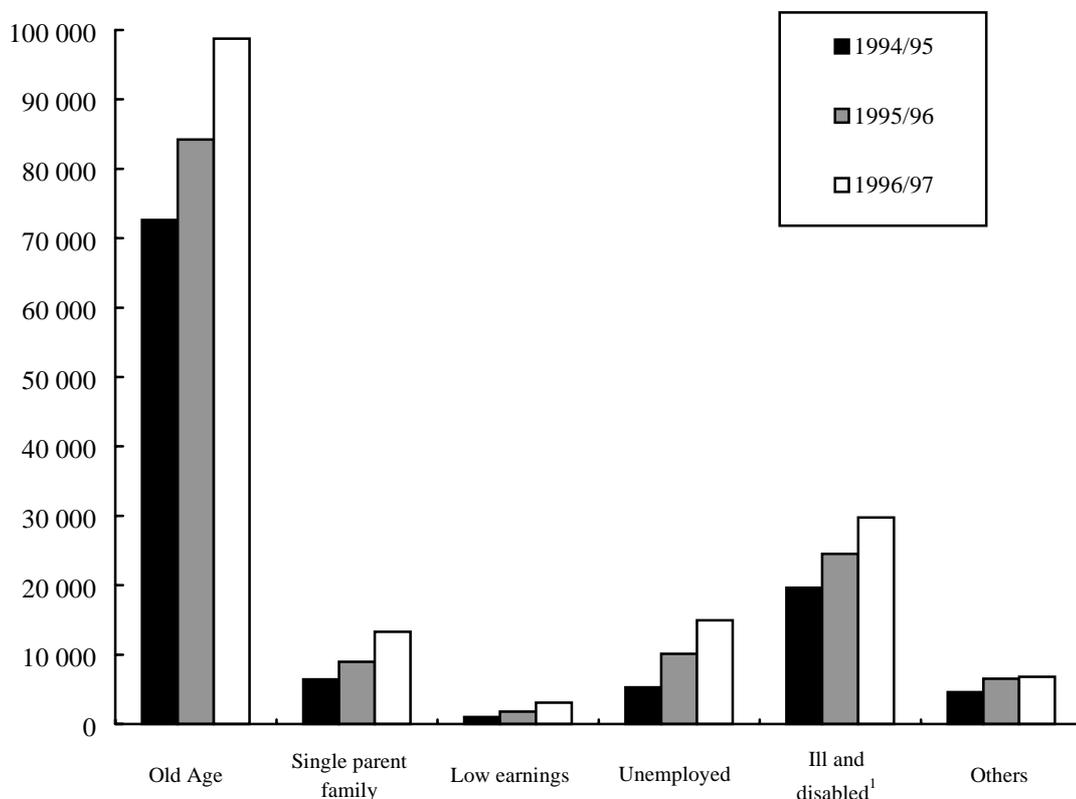
Table 6 - Number of CSSA Recipients and the Amount of Payments Granted

	1994/95	1995/96	1996/97	As at December 1997 ¹	Change between 1995/96 and 1996/97	% change between 1995/96 and 1996/97
Estimated number of CSSA recipients	140 400	185 100	234 100	282 600	49 000	+26.5%
Payments granted (\$,000)	3,426,788	4,831,097	7,127,748	7,042,395	2,296,651	+47.5%

Note : ¹ Refer to the figures recorded from 1 April 1997 to the end of 1997

Source : Social Welfare Department and the Hong Kong Monthly Digest of Statistics December 1997.

Chart 1 - Number of CSSA Cases by Category during the years 1994/95, 1995/96 and 1996/97



Note: ¹ This category comprises blind, deaf, physically disabled, mentally ill and other categories of disabled/ill health cases.

24.12 Old age was the category with the highest number of CSSA cases. This category recorded the largest absolute increase of 14 522 cases between 1995/96 and 1996/97, representing an increase of 17.2%.

24.13 Among all kinds of CSSA cases, unemployed cases had a substantial increase. The number of such cases rose from 5 302 in 1994/95 to 14 964 in 1996/97.

24.14 Between 1995/96 and 1996/97, low earnings cases came first in percentage increase at 71%. Single parent family cases also recorded considerable increase at 48.1%.

24.15 As at the end of December 1997, the estimated number of CSSA recipients was 282 600, representing about 4.5% of the population in Hong Kong. There is a trend that the number of CSSA recipients will continue to grow. Meanwhile, there is also a sharp increase of 47.5% in CSSA payments in 1996/97 over the past fiscal year.

Table 7 - The Average Monthly CSSA Rates for CSSA Recipients

Number of persons in a household	Estimated Average Monthly CSSA Rates ¹ for 1997/98 (in Hong Kong Dollars)
1	3,250
2	5,610
3	8,510
4	10,740
5 or more	13,860
Overall	4,550 ²

Note : ¹ The assistance provided is based on the number of eligible CSSA Scheme members.

² The average amount granted in each CSSA case.

Source : Social Welfare Department

24.16 It is estimated that the average monthly CSSA rates granted by the Government for 1997/98 ranges from \$3,250 for single-member households to \$13,860 for households with five or more members. In 1996, the median monthly household income in Hong Kong was \$17,500.

Joint Research by Hong Kong Council of Social Service and Oxfam Hong Kong

24.17 In December 1996, the Hong Kong Council of Social Service (HKCSS) and Oxfam Hong Kong produced a research report entitled "Research on Expenditure Pattern of Low Expenditure Households in Hong Kong". This Research was a secondary analysis of the results of the "1994/95 Household Expenditure Survey" (HES) conducted by the Census and Statistics Department of Hong Kong Government. It aimed at (i) understanding the characteristics and changes of the expenditure patterns of low expenditure households in Hong Kong; (ii) analysing the expenditure patterns of low expenditure households in Hong Kong; and (iii) evaluating the number of households living in "abject poverty" in Hong Kong.

24.18 The Census and Statistics Department conducted the 1994/95 HES from October 1994 through September 1995, involving 5 591 non-CSSA households. Researchers divided all households into eight expenditure groups according to their total household expenditure using the following boundaries: the lowest 5%, 10%, 15%, 20%, 30%, 40% and 50% expenditure group.

24.19 This research on expenditure pattern of low expenditure households adopted the income proxy measure to derive the poverty line. In this research, poverty was defined as “the income of an individual or a household being not adequate to pay for basic and necessary expenditures”. “Basic and necessary expenditures” vary according to the time and culture of society. “Abject poverty” was defined as “the income of the household being not adequate to pay for basic and necessary food expenditures.”

Expenditure Pattern of Low Expenditure Households

24.20 After analysing the expenditure pattern of low expenditure households (1994/95), researchers observed the following characteristics:

1. A large proportion of total expenditure was put on food and housing.
2. The flexibility of expenditure on housing was much lower than that on food.
3. The phenomenon of “first rise and then drop” (turning point) appeared in food expenditure percentage against the amount of total expenditure.
4. Smaller households were poorer and they spent a larger proportion of their expenditure on housing.
5. Poor households living in private housing were more deprived than those in public housing, their housing expenses were 40% to 100% higher than low expenditure households living in public housing.

Expenditure Pattern and Characteristics of Low Expenditure Households

24.21 The research found that the livelihood of the poor deteriorated in the ten years between 1984/85 and 1994/95 and the increasing housing cost was a main contributing factor.

24.22 Households in abject poverty lived in an extremely deprived condition and they did not even have enough food. It was found that the monthly food expenditure of the lowest 5% to 10% expenditure group of one-person households was \$125 less than that of the single elderly living on CSSA. And, in terms of the expenditure per month, the lowest 5% expenditure group was spending 34% less than the government’s Basic Needs Budget on food.

24.23 The food expenses of the lowest 5% expenditure groups of all sizes of households were at extremely low levels. It was found that the average food expenses of 76 000 households or 260 000 people were even less than \$630 per person per month. In other words, the incomes of these households were not adequate to pay for basic and necessary food expenditures and they were living in abject poverty.

Household size	Average Food expenses per person per month of the lowest 5% expenditure group	Number of Households	Number of People
1	525	7 000	7 000
2	606	13 000	26 000
3	629	16 000	48 000
4	594	21 000	84 000
5 or more	504	19 000	98 800
Total		76 000	263 800

Source: WONG Hung and CHUA Hoi-wai, *Research on Expenditure Pattern of Low Expenditure Households in Hong Kong*, HKCSS and Oxfam Hong Kong, December 1996.

24.24 The numbers of households and people living in abject poverty and not receiving CSSA were estimated as:

Household size	% of households in abject poverty ¹	Number of Households	Number of People	Monthly food expenses	Monthly total expenses
1	12.5%	16 000	16 000	\$1,201	\$2,289
2	7.5%	20 000	39 000	\$1,976	\$4,025
3	7.5%	24 000	73 000	\$2,870	\$5,824
4	12.5%	53 000	213 000	\$4,132	\$8,509
5 or more	7.5%	28 000	145 000	\$3,953	\$8,082
Total		141 000	486 000		

Note : ¹ In each of the household size groups, 7.5% or 12.5% of the households do not spend adequate expenses on food.

Source : WONG Hung and CHUA Hoi-wai, *Research on Expenditure Pattern of Low Expenditure Households in Hong Kong*, HKCSS and Oxfam Hong Kong, December 1996.

24.25 According to the result of the survey, there were 141 000 non-CSSA households living in abject poverty in 1994/95, which accounted for 9.3% of all households in Hong Kong and included around 490 000 people. During the same period, about 110 000 households or 150 000 people were on CSSA. Therefore, there were a total of 250 000 households (15.5% of all households) or 640 000 people (11% of the population) living in abject poverty.

Criticisms

24.26 The research jointly conducted by HKCSS and Oxfam Hong Kong estimated that each person could spend up to only \$630 per month to purchase food. In other words, a person spending less than that on food was regarded as poor. Since the original data of HES were confidential, researchers could only estimate the food expenses on the basis of the information provided by the Census and Statistics Department. As a result, the accuracy of this cut-off point is in doubt, which means that the cut-off point might have been underestimated or overestimated.

24.27 Furthermore, the researchers divided the households into eight groups and calculated the percentage of food expenses for each of the groups. Therefore, the analysis was based upon only eight figures. The limited data available might distort the findings thereof.

Research by Hong Kong Social Security Society

24.28 In September 1997, the Hong Kong Social Security Society (HKSSS) issued a research paper on poverty on the basis of the data from the Census and Statistics Department. The research attempted to measure poverty in terms of household income per capita (HIPC). To explain in simpler terms, HKSSS obtained the HIPC by dividing total household income by household size. The researchers then calculated the number of people whose HIPCs were less than half of the median value of HIPC and arrived at the percentage of those people against the entire population. This percentage then served as an indicator for poverty measurement. The income poverty line was fixed at half of the median value of HIPC, that is, those whose HIPCs are less than half of the median value of HIPC would be regarded as poor.

Methodology

24.29 Data on household income and household size was gathered from the six Population Census/By-census conducted in Hong Kong over the past 25 years (1971 to 1996). The researchers calculated the HIPC for each group from which they derived the “household income per capita distribution”. The steps of deriving the poverty rate were as follows:

1. calculated, from HIPC distribution, the median value of HIPC and half of that value.
2. calculated the number of people whose HIPCs were less than half of the median value and arrived at the percentage of those people against the entire population. That percentage was known as income poverty rate.

Results

24.30 By employing the above methodology, the income poverty rates of Hong Kong for the past 25 years obtained by researchers were set out in the following table:

Table 8 - Income Poverty Rates of Hong Kong from 1971 to 1996

Year	1971	1976	1981	1986	1991	1996
population of Hong Kong (million)	3.94	4.4	5.11	5.49	5.67	6.22
half the population ¹ (million)	1.89	1.88	2.43	2.65	2.71	3.03
median HIPC (HK dollar)	139	450	745	1,375	2,963	5,463
half of the median HIPC (HK dollar)	69	225	372	688	1,481	2,732
population whose HIPC is at half of the median HIPC (00,000)	40.25	50.39	67.26	60.55	96.4	114.23
income poverty rate (%)	10.65	13.36	13.82	11.41	17.78	18.85

Note : ¹ In the six Population Census/By-census, the upper boundaries for the grouping of household sizes were 6 and 10. In the Population Census/By-census conducted in 1971, 1981, 1986 and 1991, households with more than 10 members were included in 10-member households. In the By-census conducted in 1976 and 1996, households with more than 6 members were included in 6-member households. Such a restriction resulted in the underestimation of the number of members in larger households, and therefore the entire population of Hong Kong.

Source : Dr Henry MOK and Mr LEUNG Sing-on, *Poverty Rate of Hong Kong*, Hong Kong Social Security Society, September 1997.

24.31 From the above table, we can see that the income poverty rate has been rising constantly from 1971 to 1996, except that between 1981 and 1986 when the income poverty rate between the two years dropped.

24.32 Given that the income poverty rate is calculated purely on the basis of the level of income, taking no account of the assets, some of the poor people as revealed in the income poverty rate may possess assets in excess of the basic level. Since there is no research information whatsoever on the level of assets possessed by the local population, reference can only be made to the level of assets claimed by applicants for old age allowance. The researchers assume that the asset poverty rate (the rate of applicants whose assets fall within the asset limit) is about 75% of the income poverty rate. With this asset poverty rate, the researchers then calculate the “number of people in asset poverty” which corresponds to the number of those whose HIPC is less than half of the median value of HIPC and whose assets are within the asset limit. The number of these persons is known as “the poor population”. The percentage of these people against the entire population is called “the poverty rate”. With this calculation method, the poverty situation of Hong Kong over the past years are set out in Table 9:

Table 9 - Poverty Rates of Hong Kong from 1971 to 1996

Year	1971	1976	1981	1986	1991	1996
total population of Hong Kong (million)	3.94	4.40	5.11	5.49	5.67	6.22
population whose HIPC is less than half of the median HIPC (00,000)	40.25	50.39	67.26	60.55	96.40	114.23
income poverty rate (%)	10.65	13.36	13.82	11.41	17.78	18.85
poverty rate (%)	7.99	10.02	10.36	8.56	13.4	14.14
number of people in poverty (00,000)	30.19	37.79	50.45	45.41	72.30	85.67

Source : Dr Henry MOK and Mr LEUNG Sing-on, *Poverty Rate of Hong Kong*, Hong Kong Social Security Society, September 1997.

24.33 From the above tabulated results, it could be observed that the number of poor people in 1996 was 850 000, representing an increase of 18.5% over a period of five years, when the number of poor people in 1991 was 720 000. In comparison with the number of poor people of 450 000 ten years ago, the increase in the number of poor people stood at 88.7%.

Criticisms

24.34 The definition of poverty as adopted by HKSSS is along the line of relative poverty (the median value of HIPC), which fails to tell us anything about the conditions of lives of the poor. With the median value of HIPC being used as the poverty indicator, poverty exists even in rich societies. The research conducted by the HKSSS could only illustrate the widening poverty gap in Hong Kong in the past 25 years, failing to illustrate the changes in the quality of life of the poor people.

PART 6 - ANALYSIS

25. Summary of Findings

25.1 There is no universally agreed definition of poverty. The attempt to construct an absolute definition of poverty is flawed. Poverty is a socially constructed concept and the definition of poverty is subject to the contextual variables of time, place, and prevailing social conditions.

25.2 The adoption of relative poverty tells us nothing about the real living condition of the poor. The United Kingdom and the European Union make use of the relative poverty approach because it is a crude and readily available definition. However, it can only measure income inequality in society.

25.3 The income proxy measures would involve huge efforts in determining the turning point (i.e. the poverty level) for families of different sizes. Continued efforts have to be made to monitor the changing consumption patterns.

25.4 Based on the above considerations, the budget standards method is more preferable. This approach is to measure the income level required to allow a person to buy the minimum amount of basic necessities for living. While this definition is commonly adopted by researchers, the problem is there is not a well defined set of basic necessities.

25.5 The budget standards method has been adopted by a number of international organizations, including the World Bank and the ILO, to define poverty. This method is also used in Australia and the United Kingdom (the poverty line based on the level of social assistance). The Asian communities - the Republic of Korea and Taipei - also use the budget standards method to calculate the minimum living cost (serving a similar function as a poverty line). The Hong Kong Government has also employed the budget standards method in determining the rate of payment of CSSA.

25.6 It should be stressed that researchers have to know the needs of the poor before constructing any meaningful poverty line. Research would need to be undertaken to determine the methods of differentiating the poor and the non-poor.

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