
INFORMATION NOTE

Measurement of poverty

1. Introduction

1.1 In November 2012, the Government re-established the Commission on Poverty ("CoP") to drive and monitor its work on poverty alleviation, and for the first time, to set a poverty line for Hong Kong. CoP subsequently set up the Social Security and Retirement Protection Task Force tasked with, among other things, providing recommendations on setting a poverty line for Hong Kong. The initial proposal of the Task Force is to adopt the concept of relative poverty for setting the poverty line and set the main poverty line at half of the median household income.

1.2 The Subcommittee on Poverty has received views of deputations on the issue of poverty line at its meetings on 11 December 2012 and 27 April 2013, and will further discuss the issue at its meeting to be held on 8 May 2013. To facilitate members' discussion on the issue, this information note aims to provide information on the measurement of poverty in the Organisation for Economic Co-operation and Development ("OECD"), the European Union ("EU"), the United States of America ("US"), the United Kingdom ("UK") and South Korea. OECD, the EU and the US are selected for the study as they have established official poverty line for the measurement of poverty. While the UK and South Korea do not have any official poverty line, they have developed other poverty measures for reasons such as monitoring the effectiveness of poverty alleviation policies and determining the eligibility for social assistance.

2. Salient features of the poverty measures of the organization/places studied

2.1 Based on the findings detailed in the **Table** on pages 5 to 10, the salient features of the poverty measures adopted by the international organization/places studied are summarized below for members' reference.

Measurement of poverty

2.2 OECD and the EU adopt the concept of relative poverty in setting their official poverty lines. OECD sets the poverty line at 50% of the median household disposable income and the EU at 60%. In contrast, the US makes use of an absolute poverty line for measuring poverty. It sets the poverty threshold at three times the cost of a minimum food diet designed by the US Department of Agriculture in 1963 for families living under economic stress. The poverty threshold is updated annually for inflation using the Consumer Price Index. It is also adjusted for factors such as family size, composition, and age of the head of household, resulting in a detailed matrix of 48 poverty thresholds. Apart from poverty thresholds, the US has another slightly different poverty measure, the poverty guidelines. The guidelines are a simplification of the poverty thresholds for administrative purposes such as determining the financial eligibility for certain federal social welfare programmes.

2.3 The UK and South Korea do not have an official poverty line to quantify the extent of poverty. In the UK, the government does not resort to a single indicator (e.g. a poverty line) to measure poverty. It defines poverty in terms of absolute income, relative income¹, material deprivation and low income combined, and persistent poverty in an effort to capture the multi-dimensional aspects of poverty (particularly the severity and duration of poverty). In contrast, South Korea defines an absolute subsistence minimum in terms of basic needs such as food, housing and health care, and the poverty line is the aggregate costs of these goods and services. A family is considered as living in poverty and eligible to receive social assistance if its income is less than the poverty threshold or the minimum cost of living calculated annually by the Ministry of Health and Welfare.

¹ Following the EU practices, the UK sets the relative income poverty line at 60% of the median household disposable income.

Definition of income

2.4 OECD, the EU and the UK have adopted a similar definition of household disposable income in their measurement of poverty, i.e. including all income from work, investment and property and social security cash benefits, and deducting taxes and social security contributions. In the US, total household income is taken as the yardstick for ascertaining whether a family lives in poverty. It is defined as before-tax money income including earnings, investment income, pensions and social security cash benefits. In South Korea, a household is eligible to apply for social assistance if its recognized income is less than the minimum cost of living. According to the Ministry of Health and Welfare, the recognized income is calculated by adding the monthly household income to the additional income converted from the value of assets and properties (such as land, house, financial assets and vehicle) owned by the household concerned.

Limitations of the poverty measures

2.5 The relative poverty approach adopted by OECD and the EU does not take into account non-income resources such as in-kind social benefits when measuring poverty. In addition, the approach only accepts the concept of poverty as encompassing income poverty. It excludes the concept of social exclusion² which could trap people in a spiral of disadvantages through multiple deprivations (e.g. poor housing, inadequate health care and barriers to lifelong learning). In the US, the absolute poverty line was created in 1963 and it may not include the new necessities required for attaining today's average standard of living. Same as the OECD and the EU, the US only counts the household's cash income without taking into account in-kind social benefits in the poverty calculation.

² Social exclusion refers to the process in which individuals are denied of the resources (e.g. housing, employment and healthcare), rights, goods and services, and ability to participate in the normal relationships and activities (economic, social, cultural and political) available to the majority of people in a society.

2.6 The UK adopts a multi-dimensional approach to measure poverty, which leaves out in-kind social benefits in the measurement of household income. In addition, the current multi-dimensional approach, which primarily adopts income-based indicators, may not fully capture other poverty-related dimensions such as unemployment and access to quality education. Same as the UK, South Korea does not include in-kind social benefits as income when measuring poverty. In addition, it is difficult to get a consensus view on the composition of the basket of goods and services for calculating the minimum cost of living in South Korea.

Studies on improvement of poverty measurement

2.7 OECD, the EU and the US are considering the issue of in-kind social benefits in the measurement of poverty, as the exclusion of which may distort the true picture of the severity of poverty. Of particular importance is the failure to capture the redistributive impact of in-kind social benefits on the poverty-stricken population. As such, OECD and the EU have conducted preliminary studies to quantify the impact of in-kind social services on the income distribution in the member countries. One study is to adopt the rental equivalence approach to estimate the market rental value of public housing and compare it to the actual rental currently paid by the occupying tenants. The difference between the two is regarded as income of the subsidized households.³

³ Eurostat (2010) and Organisation for Economic Co-operation and Development (2012).

Table — Poverty measures adopted by selected international organization/places

	OECD	European Union	The United States	The United Kingdom	South Korea
(a) Official poverty measures					
Official poverty line and the threshold	<ul style="list-style-type: none"> 50% of the median household disposable income. 	<ul style="list-style-type: none"> 60% of the median disposable income. 	<ul style="list-style-type: none"> Poverty thresholds set at three times the cost of a minimum food diet in 1963 and updated annually for inflation. There are 48 poverty thresholds differentiated by factors such as family size, composition, and age of the head of household. 	<ul style="list-style-type: none"> Nil. 	<ul style="list-style-type: none"> Nil.
Other official poverty measures	<ul style="list-style-type: none"> Nil. 	<ul style="list-style-type: none"> Nil. 	<ul style="list-style-type: none"> Poverty guidelines as a simplification of the 48 poverty thresholds. 	<ul style="list-style-type: none"> A multi-dimensional approach to define poverty in terms of: <ol style="list-style-type: none"> relative income – household income less than 60% of the median household disposable income; combined low income and material deprivation; absolute income – household income less than the 2010-2011 income threshold adjusted for prices; and persistent poverty – household income less than the income threshold for at least three of the previous four years. 	<ul style="list-style-type: none"> Minimum cost of living.

Table — Poverty measures adopted by selected international organization/places (cont'd)

	OECD	European Union	The United States	The United Kingdom	South Korea
(a) Official poverty measures (cont'd)					
Objectives of setting the poverty measures	<ul style="list-style-type: none"> Comparing poverty situation across member countries and identifying common or country-specific drivers for poverty. 	<ul style="list-style-type: none"> Comparing poverty situation across member states and monitoring progress in alleviating poverty and social exclusion.⁴ 	<ul style="list-style-type: none"> Poverty thresholds used for statistical purpose in estimating the number of people in poverty nationwide and classifying them by social, economic and demographic characteristics. Poverty guidelines used for determining financial eligibility for some federal social welfare programmes. 	<ul style="list-style-type: none"> Gauging poverty status of the population, assessing the effectiveness of existing poverty alleviation policies and formulating new policies. 	<ul style="list-style-type: none"> Determining eligibility for benefits under the National Basic Livelihood Security system, the social safety net of last resort in South Korea.

⁴ In 2010, the European Council adopted a target under the Europe 2020 strategy that by 2020 there should be at least 20 million fewer people in the EU who are at-risk-of-poverty or social exclusion. Apart from measuring the at-risk-of-poverty rate, i.e. the proportion of population living in households with disposable income below the poverty threshold, the EU also adopts two other indicators i.e. "persons who are severely materially deprived" and "persons living in households with very low work intensity" for measuring the social exclusion situation of the member states.

Table — Poverty measures adopted by selected international organization/places (cont'd)

	OECD	European Union	The United States	The United Kingdom	South Korea
(a) Official poverty measures (cont'd)					
Concept of poverty adopted in setting the poverty measures	<ul style="list-style-type: none"> Relative poverty – determining poverty with respect to income or well-being level of the population as a whole. 		<ul style="list-style-type: none"> Absolute poverty – setting the poverty thresholds at three times the cost of minimum food diet. 	<ul style="list-style-type: none"> Multi-dimensional approach to measure poverty in terms of a number of poverty indicators. 	<ul style="list-style-type: none"> Absolute poverty – defining an absolute subsistence minimum in terms of basic needs such as food, housing and health care, and defining the poverty line as the aggregate costs of these goods and services.
Basis of determining the poverty threshold	<ul style="list-style-type: none"> Considering the poverty thresholds adopted by other international organizations/ places such as the EU. 	<ul style="list-style-type: none"> Ensuring comparability with previous measures of poverty over time.⁵ 	<ul style="list-style-type: none"> There were generally accepted standards of adequacy for food when the poverty thresholds were developed in the early 1960s. The multiplying factor of three was adopted to allow for other necessary family expenses basing on the findings of the Household Food Consumption Survey in 1955.⁶ 	<ul style="list-style-type: none"> Adopting the practices of the EU when defining relative income poverty. 	<ul style="list-style-type: none"> Measuring the usage volume and prices of a basket of selected basic necessity items for a standard household.

⁵ The EU had previously adopted 50% of the average consumption as a poverty benchmark. Poverty rates based on 60% of median disposable income and the rates based on the previous measure are comparable.

⁶ The Household Food Consumption Survey in 1955 indicated that food expenditure accounted for one-third of the total after-tax money income of the families.

Table — Poverty measures adopted by selected international organization/places (cont'd)

	OECD	European Union	The United States	The United Kingdom	South Korea
(b) Limitations of the poverty measures					
Limitations	<ul style="list-style-type: none"> The relative poverty approach may not fully reflect the poverty status of the population as it does not take account of: <ol style="list-style-type: none"> needs of the people and deprivation; non-income-based resources such as assets and in-kind social services; and financial deductions such as debt. 	<ul style="list-style-type: none"> The poverty thresholds are subject to a number of limitations, such as⁷: <ol style="list-style-type: none"> failing to reflect the current situation as the original thresholds were based on a minimum food diet designed in 1963. Compared with food, housing, transportation and utilities are now much larger components of family spending; excluding the expenses that are necessary to earn income e.g. transportation and child care costs, and health care expenses; and overstating the extent of poverty since in-kind social benefits that many low-income families receive are not included as income. 	<ul style="list-style-type: none"> The measurement of household income does not include in-kind social benefits. The current poverty indicators are primarily income-based. Hence, they may not fully capture other poverty-related dimensions such as unemployment and access to quality education. 	<ul style="list-style-type: none"> The determination of basic necessities is controversial, and subjective judgment may be involved in determining the basket of items for measurement. 	

⁷ Citro, C., & Michaels, R. (ed.) (1995).

Table — Poverty measures adopted by selected international organization/places (cont'd)

	OECD	European Union	The United States	The United Kingdom	South Korea
(c) Features of the poverty measures					
Measurement of Income	<ul style="list-style-type: none"> Annual household disposable income: <ol style="list-style-type: none"> including all income from work, investment and property, and social security cash benefits; and deducting taxes and social security contributions. 	<ul style="list-style-type: none"> Total family income before-tax as a measure of family resources⁸. It includes earnings; interest, dividend, rent, estate and trust income; pensions; social security benefits; and other in-cash social benefits. 	<ul style="list-style-type: none"> Household disposable income in a financial year: <ol style="list-style-type: none"> including all income from employment, investment, pensions, social security cash benefits and educational grants; and deducting income taxes, council tax, national insurance contributions and child support payments. 	<ul style="list-style-type: none"> Recognized income calculated by adding the monthly household income to the additional income converted from the value of assets and properties (such as land, house, financial assets and vehicle) owned by the household.⁹ 	

⁸ Total family income is measured for determining the poverty status of a family. If the total family income of a family is less than the relevant poverty threshold, the family and every member in it are considered to be in poverty.

⁹ South Korean citizens whose recognized household income is below the minimum cost of living and who receive no support from those liable to support are eligible to receive social assistance under the National Basic Livelihood Security system. The difference between the minimum cost of living and recognized income of a household is paid as benefits.

Table — Poverty measures adopted by selected international organization/places (cont'd)

	OECD	European Union	The United States	The United Kingdom	South Korea
(c) Features of the poverty measures (cont'd)					
Inclusion of in-kind social benefits in the measurement of household income	<ul style="list-style-type: none"> No. In-kind social benefits such as public housing, publicly financed education and health care benefits are not included. 				

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