

Hong Kong's First Official Poverty Line – Purpose and Value

Chief Secretary for Administration Mrs Carrie Lam

Publication of Hong Kong's first official poverty line (PL) at the Commission on Poverty Summit last Saturday marked a significant step forward in poverty alleviation work of this term of the Government.

As Chairman of the Commission on Poverty (the Commission), I am indebted to members for their hard work in the past ten months. Their efforts have enabled this important task to be completed ahead of schedule. We will approach the Commission's next phase of work with equal energy and expediency.

The Purpose of a Poverty Line

As mentioned by the Chief Executive in his address before the Legislative Council on 17 October 2012, the Government has a duty to assist the poor. To ensure that we do a proper job, he tasked the Commission to draw a PL which should be credible and generally accepted, locally and internationally. The Commission comprises members from different social and political backgrounds. The broad consensus reached on the PL reflects a common wish of members to better understand the poverty situation and their earnest desire to provide clear policy direction for the Government's poverty alleviation measures.

The official PL has three functions - it measures and analyses the overall poverty situation; facilitates evidence-based policy-making; and assesses the effectiveness of policy intervention.

Relative versus Absolute Poverty

The PL is defined as half of the median monthly household income (MMHI) of all domestic households in Hong Kong, prior to government intervention like tax and social benefits transfers. This approach is based on the concept of relative poverty as opposed to absolute poverty expressed in terms of basic subsistence. The Commission considers that in an affluent city like Hong Kong, poverty can no longer be understood

merely by the lack of ability to afford minimum subsistence. Relative poverty acknowledges that the definition of poverty should move with the times and change with general living standards. This is in line with the current Government's thinking that we should put in place a reasonable and sustainable social support system where different strata of society can share the fruits of economic development.

For 2012, the PL was \$3,600 for a single person, \$7,700 for a two-person household, \$11,500 for a three-person household, \$14,300, \$14,800 and \$15,800 for a family of four, five and six & above respectively. These poverty thresholds will be reviewed annually in line with the MMHI movement.

While easy to understand and comparable to international and local practices, the income-based PL has its limitations.

Specifically, the MMHI only measures income without considering assets. Some "asset-rich, income-poor" people (such as better-off elderly persons or retirees) may be classified as poor, thus overstating the poverty problem. Given the relativity concept, poverty cannot be eliminated. Indeed, an economic upturn with a broad-based improvement in household income does not guarantee a decrease in the size of the poor population, especially when the income growth of households below the PL is less promising than the overall. There will always be people below the PL.

An estimate of poor population below the PL

The PL represents the household income prior to policy intervention. In reality, many households receive cash-based benefits from government under policies like social security and student financial assistance. These recurrent cash transfers will lift some households out of poverty. As a result, Hong Kong's poor population in 2012 was around 1.02 million (403 000 households), representing a poverty rate of 15.2%.

It has to be noted that the government's role goes beyond providing recurrent cash transfers to those in need -- universal benefits like free primary and secondary education and heavily subsidised healthcare, and

means-tested benefits in-kind like public rental housing (PRH) form an integral part of our social support system. Our assessment indicates that PRH has a major poverty alleviation effect. In addition, one-off cash-based relief measures were introduced in past Budgets to reduce the economic burden on many households. However, the Commission is generally of the view that since these measures either do not increase a family's disposable income or are ad hoc in nature, they should only be provided for reference and should not be factored into our measurement of the poor population.

Detailed analysis of the 1.02 million persons below the PL

We are publishing together with the PL a detailed report on Hong Kong's poverty situation in 2012. We will update this report annually to facilitate public understanding of the situation and monitoring of government's poverty alleviation policy measures.

Amongst the 1.02 million persons below the PL, 209 000 were children under 18, while 297 000 were elderly at 65 or above. In other words, one in five of our children and one in three of our elderly are living below the PL.

However, as mentioned above, the elderly poverty rate could have been inflated by including the "asset-rich, income-poor" households. Indeed, Government surveys indicated that 61% of the elderly (some 140 000) in the non-CSSA households below the PL had no need for financial assistance when asked. The elderly poverty rate will also come down in future with the implementation of the Old Age Living Allowance in April this year. A separate study engaged by the Commission is looking into how retirement protection may be improved.

While CSSA has lifted some 90 000 families out of poverty, around 100 000 CSSA families are below the PL. Many of these were one and two-person households and about one-third are children or students.

Of the 300 300 non-CSSA households below the PL, some 48% (143 500 households comprising 493 200 persons) were in employment. Notwithstanding the statutory minimum wage and that the majority of

bread winners in these households were in full-time jobs, they belonged to a category of working poor with larger household size, had more dependants to support and were engaged in low-skilled jobs. They should deserve our priority attention.

Strategies to combat poverty

The setting of the PL has helped us size up the poverty problem in Hong Kong. Yet poverty is not just about numbers. Being a people-oriented Government, the task before us is to find the right ways to help the poor. Several observations are worth policy deliberation.

First, employment is the best route out of poverty. We should continue to grow our economy and create employment opportunities, particularly quality jobs that can facilitate the upward mobility of our young people.

Secondly, any new measure helping needy working poor families should be pro-employment and pro-children. The support should be structured to sustain family members' self-reliance whilst enhancing opportunities for upward social mobility.

Thirdly, it would be more effective to consider targeted improvements to the CSSA system to encourage able-bodied recipients to move "From Welfare to Self-reliance" and strengthen support for school-aged recipients to tackle the risk of inter-generational poverty.

Fourthly, we should consider helping other special needs groups like people with disabilities, ethnic minorities, single parents and new arrivals through a combination of cash assistance, support services and regularisation of effective programmes funded by the Community Care Fund.

Our work ahead

By setting a PL, the Commission has fulfilled an unprecedented mission in tackling the poverty problem in Hong Kong. But the real test of Government's determination and commitment lies in devising poverty alleviation measures that are focused and effective. The Government is

about to kick-start the consultations for the next Policy Address and Budget. We would like to hear your views.