

Consumption Characteristics of Low-Income Households and Their Policy Implications

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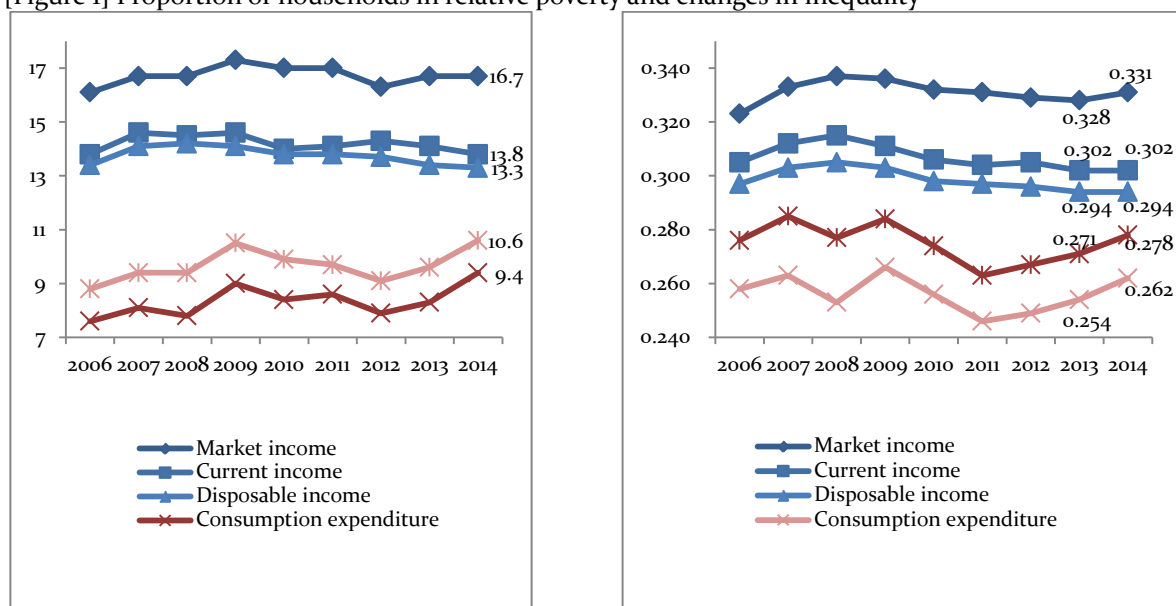
Use of consumption among low-income households

Consumption is often a better indicator of people’s actual living standards than is income. One of the obvious benefits it has in social policymaking is that it helps better understand the needs, both met and unmet, of households of different income levels. The use of consumption as an indicator gains added significance when it comes to the living conditions of low-income households. For one thing, low-income households, as compared to their higher income counterparts, are a group whose income often gets difficult to verify, as they are more exposed to the risk of precarious employment. For another, consumption as compared to income better captures the varying needs of low-income households at the same income level but of different compositions and sizes.

Consumption poverty and inequality

Consumption poverty, defined here as the fraction of households with expenditure levels below 50 percent of the national median consumption level, has increased over most of the period since 2008 barring a drop recorded in the years 2011 and 2012. The trajectory of consumption inequality has been much the same. Between 2006 and 2015, household consumption expenditure increased by 1.1 percent for those living below 50 percent of the median income, 9.9 percent for households with an income between 50 percent and 150 percent of the median, and 5.8 percent for those with a higher income. Over the same period, the real disposable income of low-income households grew by 15.2 percent, while their real market income shrank by 18.5 percent. Meanwhile, households with an income between 50 percent and 150 percent of the median saw a 16-percent increase in disposable income and a 13.5-percent increase in market income. The figures for those with income more than 150 percent of the median were 14.4 percent and 14.6 percent, respectively.

[Figure 1] Proportion of households in relative poverty and changes in inequality



Source: Household Income and Expenditure Survey, for years 2006~2014, Statistics Korea

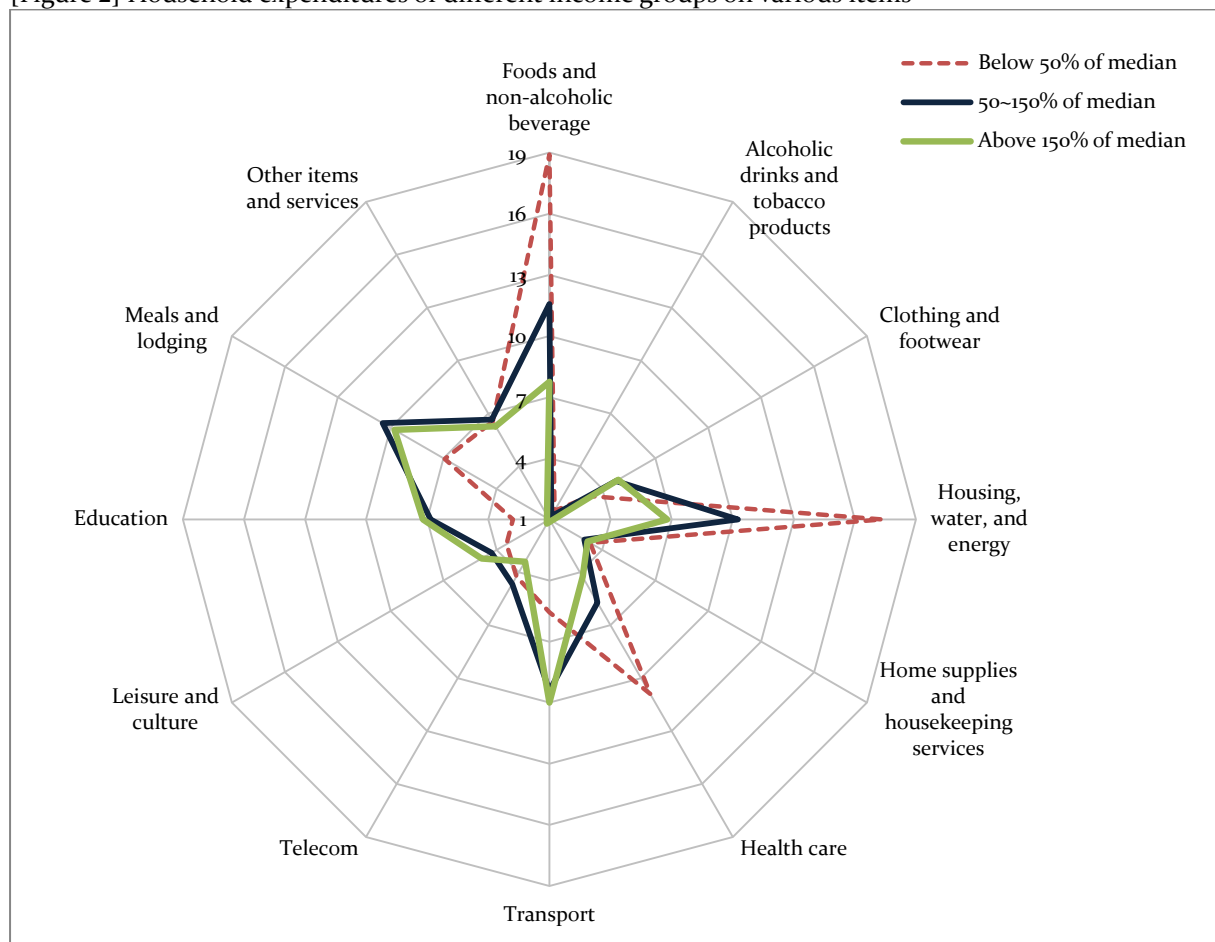
Real consumption has increased among low-income households, if to a lesser extent than among non-low-income households. Real disposable income has increased by similar rates for both low-income households and non-low-income households.

Although having declined since 2011, the propensity to consume among low-income households still hovers above 1. This suggests that, despite the increase they saw in real disposable income between 2006 and 2015, low-income households must have been under a great deal of economic strain in consumption contexts, presumably more so than non-low-income ones. In addition, against the backdrop of rising consumption poverty among low-income households, understanding which of the consumption items put more pressure on their family expenditure gains added importance in policymaking.

Consumption in income-poor households, by items

In 2015, low-income households spent a larger share of their expenditure on “foods,” “housing,” and “health care” than did non-low-income households. Spending on “meals and lodging” and “education” as a share of total household expenditure, by contrast, was smaller for low-income households than for non-low-income ones.

[Figure 2] Household expenditures of different income groups on various items



Source: Household Income and Expenditure Survey, for 2015, Statistics Korea

The fall in education spending as a share of total household expenditure among low-income families may be due in part to the characteristics of their family composition. For example, those with children aged 6~18 accounted for as little as 9.3 percent of low-income households, compared 18.6 percent of non-low-income households, as of 2015.

Low-income households themselves are a group with different family compositions and

needs. Keeping this in mind is important in understanding what consumption constraints they face and what risks they have with their unmet needs. Understanding whether and to what extent they encounter the risk of unmet needs in the domain of basic necessities can be of significant relevance to social policy.

Low-income households' expenditure on housing, education and health care

This study assumes that among households with comparable needs, those spending less than the median on given items are at high risk of relative deprivation. I estimated the proportion of such at-risk households for different income brackets. I chose the “median” consumption level, instead of the average, as the latter runs a higher risk of being affected by the consumption of high-income households.

I confined my analysis to three of the basic needs: housing, education and health care. More specifically, this study estimated: the proportion of those in monthly-renter households whose monthly expenditure on housing was less than the median; how much those that spent less than the median on education (including private afterschool programs) took up in households with primary and secondary school children and in households with college students; and how many among households with chronically-ill members (who had been under medical treatment or on medication for at least six months) spent less than the median on health care. Come to that, an additional analysis was conducted of households with members affected by five of the most frequent chronic diseases, which are hypertension, diabetes, arthritis, low back pain, sciatica pain and disc herniation.

Those that spent less than the median on housing accounted for 64.6 percent of low-income monthly renter households in Seoul; the figure for non-urban areas was 55.1 percent. The proportion of non-low-income monthly renter households that spent less than the median on housing was 46.8 percent in Seoul and 47.3 percent in non-urban counties.

[Table 1] Proportion of monthly renter households spending less than the median on housing

	Seoul	Metropolitan cities	Cities	Non-urban counties	Mixed urban/rural counties
All households	50.6	50.3	50.2	50.0	56.3
Low-income households	64.6	67.7	63.4	55.1	44.3
Non-low-income households	46.8	40.0	44.4	47.3	59.3

Source: *Korea Welfare Panel Survey*, 10th wave (2015), Korea Institute for Health and Social Affairs

Those that spent less than the median on education accounted for as much as 87 percent of low-income households with primary and secondary school children, while only 46.9 percent of non-low-income households with children in the same age range spent less than the median on education. As for low-income households with college students, 61 percent spent less than the median on education, compared to 49.3 percent of non-low-income households.

[Table 2] Proportion of households with school children that spend less than the median on education

	Households with primary and secondary school children	Households with college students
All households	50.1	50.0
Low-income households	86.5	61.4
Non-low-income households	46.9	49.3

Source: *Korea Welfare Panel Survey*, 10th wave (2015), Korea Institute for Health and Social Affairs

Of low-income households with chronically-ill members, an estimated 63.6 percent were

found to have spent less than the median on health care, compared to 45 percent for non-low-income households with chronically-ill members. As concerns households with members affected by high-frequency chronic conditions (such as hypertension, diabetes, arthritis, low back pain, sciatica pain and disc herniation), the proportion of those that spent less the median on health care, as expected, was larger in low-income households than in non-low-income ones. The share of low-income households that spent less than median on health care, even when those receiving medical aid were counted out, were still high at 61 percent for those with members affected by chronic conditions and 57 percent in the case of those with members having high-frequency chronic conditions. The difference in the percentage of those spending less than the median on health care between the two groups—those receiving medical aid and those not—can presumably be attributed to the strict eligibility criteria attached to the medical aid program.

[Table 3] Proportion of households with members having chronic conditions that spend less than the median on health care

	Households with chronically-ill members			Households with members affected by hypertension, diabetes, arthritis, low back pain, sciatica pain and/or disc herniation		
	All	Those with medical aid	Those without medical aid	All	Those with medical aid	Those without medical aid
All households	50.5	50.3	51.1	50.2	50.3	50.3
Low-income households	63.6	61.5	61.0	63.0	62.5	57.3
Non-low-income households	45.0	40.3	49.7	44.7	40.1	49.3

Source: *Korea Welfare Panel Survey*, 10th wave (2015), Korea Institute for Health and Social Affairs

Concluding remarks

Low-income households allocate a larger share of family expenditure to foods, housing and health care than do their higher-income counterparts. To put this in another way: meeting such basic needs is harder for low-income households than for non-low-income ones. This study looked at low-income households' propensity to consume and their consumption levels. Low-income households are a group that needs increased public support not least in basic necessities. Also, this study finds that low-income households have a higher risk of relative deprivation than do non-low-income households, especially in the area of housing, education and health care.