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Keeping up with basic needs: spending patterns over the past 30 years

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People generally understand that low-income households spend more, proportionately, on basic needs than high-income households. But few are wholly acquainted with how spending composition has changed over time. People often believe that, regardless of year-to-year changes to income, spending patterns tend to remain relatively stable. A new report from the Hamilton Project puts this notion to rest.

In "Where does all the money go: shifts in household spending over the past 30 years," Diane Whitmore Schanzenbach, Ryan Nunn, Lauren Bauer, and Megan Mumford analyze 30 years (1994–2014) of data from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey and find that spending on basic household needs has increased for those at the lowest end of the economic spectrum. Most notably, this shift has been driven by the rising costs of housing and health care.

Compared with 30 years ago, low-income households are applying a greater share of their spending to basic needs. The analysis focused on three groups: low-income households (defined as the lowest quintile of the income distribution), middle-income households (the middle quintile of the income distribution), and high-income households (the highest quintile of the income distribution). For middle- and high-income households, total spending has increased (by about 2 percent and 9 percent, respectively), but spending on basic needs has decreased slightly for middle-income households and by about 3 percentage points for high-income households. For low-income households, total spending has declined by more than 4.5 percent, but spending on basic needs has increased by nearly 2 percentage points.

When the basic-needs components are broken out, it becomes clear that housing and health care are the dominant drivers of rising costs. The share of spending on these two components combined increased by more than 7 percentage points for both low- and middle-income households. The proportion of spending on the other components (food, clothing, and transportation) declined for both low-and middle-income households. While the relative prices of clothing and transportation have fallen over the years, food prices have actually increased. That food spending has declined in the face of rising prices seems to suggest that rising costs in housing and healthcare may be forcing low- and middle-income households to cut back spending on food. This idea is bolstered by evidence showing "adults in low-income households tend to decrease food consumption to offset rising utilities expenditures during the winter."

For low-income households, housing costs constitute nearly 41 percent of the budget—a share increase of 5.5 percentage points over 30 years. Putting more pressure on low-income households is the fact that "expenditures on rented dwellings have increased faster than those for owned dwellings." For both low- and middle-income households, the cost of health care (health insurance, medical services, drugs, and medical supplies) has

skyrocketed. The authors point out that in 1984, households devoted a relatively small portion of the budget to health care. By 2014, expenditures had increased by 60 percent for middle-income households and 28 percent for low-income households, although these expenditures still are lower than those on housing, transportation, or food.

The composition of spending has changed over time, particularly for low-income households. Total expenditures for low-income households has fallen over the past 30 years, while the percentage spent on basic needs has increased. Conversely, for middle- and high-income households, total expenditures have increased while the percentage devoted to basic needs has decreased. Housing and health care spending have gone up dramatically, with all three income groups spending more today on these two basic needs components than in years past. The authors suggest that social safety net programs like SNAP and Medicaid have a role in decreasing the effect of rising basic needs costs on low-income households.