

Household Debt Burden and Household Financial Well-being

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Paper Abstract:

Household debt is one of the important issues in Korea. Recently household debt is ever increasing although many countries such as US, UK has deleveraged since the global financial crisis in 2008. Many people concerns on the ever increasing household debt considering the impact of the household debt on the financial stability although most reports from the government sector imply that the impact may be limited.

However household debt could affect people's well-being through the consumption. People usually think their effective income for their consumption as the disposable income minus the debt payments. Financial priority in the households usually is put on the debt and tax payments. The consumption expenditure is one of the important factors which determine the well-being of the people and it is determined by the effective incomes. Thus the debt could affect people's well being through the effective income after the debt payments.

Nowadays, many people in Korea seem to feel their lives unsatisfactory although their gross income have increased. Maybe it is related to the expansion of household debt. This kind of feeling is related to the distribution of debt payments. If the people feel the deb burden is unfair due to the some reasons, people's well-being can be affected.

Recently people's access to the consumer credit has been increasing and people can easily borrow the money as much as they want. But there is some financial constraint such that people cannot get some money from the institutions such as banks that they want to borrow. In some places, the financial industries exploit the poor through the high interest rates. Thus we can say that financial accessibility is partly improved because the people get money as much as they want but cannot get money from the institutions which they want to borrow. Debt burden is different to the household conditions such as income, wealth etc.

Although, under the low interest rate scheme, the payment burdens seem not to be serious and aggregate DSR (Debt Service Ratio) index shows this trend. Here we argue that financial well-being is related to the distribution of effective income. Since the interest is levied by the people's credit scores in the most countries which is related to income level and the other economic factors, it may be natural that the debt payment burden is different to the people's economic conditions.

Here we analyze the role of debt payment in determining the effective income distribution. If the financial accessibility has been improved properly, the difference of the debt payments among the people may not affect much on the distribution of the effective income. If the people can borrow the money at the relatively low interest rates, the debt payment cannot affect the distribution of the effective income. If not, the distribution gets worse and the debt payments has some income redistribution role and it affects the financial well-being in the country. Thus we estimate the distributions of the disposable income and effective disposable income which is the net disposable income after the interest and principal payments. We estimates the gap between the two

distribution using gini coefficient and find whether the trend of the gini gap is increased although the interest rate has been low.

Finally we analyze the relationship between the monetary policy and the gini gap to find out the role of monetary policy in the financial well-being in Korea using the time series regression. If the authority set the interest rates low level to reduce the debt burden of the general people, we try to know this policy is effective or not. Maybe the monetary policy which simply decides the interest rate may not affect the gap and thus it is an empirical question.

We argue that the financial condition is closely related to the well-being of the people in modern advanced economies where the debt is one of popular financial instruments for their daily lives. Although our accessibility to the debt is increased and many people can 'freely' use it, there can be some side effects. Many people get some money as much as they want but they cannot get the money at the proper price. Other things being equal, the financial lives of the poor people get worse due to their relatively high interest payments and their quality of life also due to the relatively high debt burden. This paper analyzes the other face of the household debt problems such as the new redistribution role of the debt in Korea which may affect the quality of common people.