The UK’s debt economy creates new forms of inequality

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How does debt relate to deepening income and wealth inequality? The most recent research by the Organisation for Economic Co-operation and Development shows clearly the multiple ways in which growing inequality is inhibiting economic renewal. ***Johnna Montgomerie*** *considers how the current unprecedented scale and scope of indebtedness reconfigures the established relationships between labour markets, income and wealth dynamics.*

It is well-established that UK household-level debt is pivotal in shaping wider macroeconomic trends. Currently the stock of household debt in the UK is measured at just under £1.5 trillion; actually a very low estimate, because it excludes all securitised assets – debts moved to offshore corporations as part of the ‘originate and distribute’ loan model used by all major UK banks. Still, even this very low estimate of the amount of household debt represents nearly all the value of GDP output in 2014, £1.7 trillion. Earlier this year, the Office for Budget Responsibilities (March 2015) predicated the UK’s future GDP growth projections on rising household debt levels; with increase of household debt-to-income ratio from current 110 per cent to 119 per cent (chart 3.31).

We also know that households across the income and socio-economic spectrum are increasingly struggling to cope with their debts. Recent research from the Financial Conduct Authority says that 1.8m people in the UK are in ‘debt denial’ and almost 9m people (18 per cent of the UK population) are ‘over-indebted’. According to StepChange, in 2014, households with average income, families with children, those in full time work and the self-employed are the most at risk of indebtedness.

Inequalities of Indebtedness

My previous research demonstrates how household debt is directly promoted as replacement for welfare provision – the debt safety-net – where debt is downloaded onto households with the stated aim of reducing public debt while also promoting finance-led welfare provision. Austerity policies mean households take on ever more debt to replace the lack of government services and provisions for households. Debt is now the main safety-net for households to cope with unexpected events or emergency; it is the only available resource to get through difficult times.

In-depth community-based research in Teeside and Newham shows how cuts to benefits and public services directly leads to poor households in deprived areas taking on more debt to survive. Debt advice providers collect important budget sheet data using the agreed ‘Common Financial Statement’ with standardised trigger figures on debt; also, they provide extensive qualitative evidence of the effects of debt on, for example, mental health, family breakdown and poverty. A wealth of third-sector research on trajectories of indebtedness in the UK suggest its links to deepening inequality and poverty (see here, here, and here).

Debt plays an important role in the underlying causes of income and wealth inequalities. We need to consider the degree to which household debt actually facilitates *downward* social mobility, increased inequality and poverty among the ‘squeezed-middle’, or acts as a trap preventing households from moving out of poverty.

For example, the amount of overall household debt obligations potentially impacts the capacity for short-term income gains incurred when moving into employment to reduce poverty. StepChange reported, in 2013, that clients with problem debts came as result of changes to their work situation, such as losing their job or working reduced hours. Therefore, job loss is one of the biggest causes of a drop in income that leads to indebtedness, with limited or no access to unemployment benefit due to austerity-led cuts, households use debt to cope. When new employment is found or additional hours granted, debts incurred during unemployment must be repaid before gains from employment can be realised. With the growing use of temporary contracts it is unclear whether the time-lag is sufficient to reduce debts sufficiently before another change in work situation occurs.

We know that reliance on the debt safety-net is not necessarily a universal experience; it is the already disadvantaged – the people the welfare state aims to protect – that are worst hit. Women with dependent children, those experiencing family breakdown, and the sick or disabled are much more likely to be over-indebted. Additional research shows that a family member falling ill, divorce, or an elderly parent requiring additional care, or the arrival of a new baby arrives directly relates to increase in household debt levels. Austerity compounds poor households' reliance on debt as the central and local governments withdraw services and income support private debt to replaces public welfare provision.

Debt is becoming a condition of contemporary poverty and, potentially, even a cause of poverty. As such, the causes and consequences of indebtedness demand immediate and closer attention.

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