

Britain's trillion-pound debt

[Edward Rollett](#) investigates Britain's trillion-pound debt, and its threat to derail growth

Friday 9 May 2014



Michael Day

As the UK economic recovery gathers pace, there are fears that the country could once again be heading towards a dangerous level of household debt. Household debt, including mortgages, has reached £1.43trn – its highest level ever. This has prompted warnings from the centre for Social Justice (CSJ) that debt may be reaching unsustainable levels.

The thinktank was founded by Iain Duncan Smith, the Minister for Work and Pensions, to find solutions to poverty in Britain. It blamed rising energy bills for rising debt in poorer households. The fears that these accelerating utility bills are driving poverty in the UK will fuel the calls of Ed Miliband to freeze energy prices.

The average cost of living has risen 25 per cent in the last five years, with the majority of the rise in the cost of living due to energy bills. This had left the average household debt at £54,000, compared to only £29,000 a decade ago. As a result, over eight million low-income households now have no savings.

The knock-on effect of this rise in debt is a poverty-cycle. According to the CSJ, almost half of households in the lowest income decile were spending more than a quarter of their income on debt repayments alone in 2011. There has also been a sharp rise in the use of pay-day lenders, with borrowing levels reaching £4.8bn in 2012, an increase from £2.9bn in 2009. However, total personal loans across the country now amount to £30bn.

This is an eye-watering figure in itself, but only a drop in the ocean compared to Britain's far worse issue of mortgage debt. A total of £897bn is owed in this form across the country, with the problem greatest in the South-East. London alone accounts for £229.5bn of this total debt, with South-West London having more mortgage debt than Wales (£29.4bn versus £28.6bn). This is another facet of the ongoing house price bubble in London – and by extension the South-East – that has both made property prices soar, and in doing so given seemingly greater assurance to back up mortgage loans.

In Bath, personal loans debt is the headline figure, with the Bath postcode of BA1 9 making the news recently for having the highest level of personal loans per person, owing £2,311 per head. However, its

proximity to the South-East, and its high average property prices (342,728 in the last year, according to Zoopla- a 20 per cent rise in the last five years), suggests that mortgage debt may be a far greater underlying problem.

Either way, this amounts to greater potential for debt traps across the country that could threaten the recovery. Growth has notably been very much driven by consumer-spending in recent years, but spending supported by rising debt levels. If consumers find their income taken over by debt repayments, the economic recovery could be damaged, with job and income losses further swallowing up disposable income in paying off debt. Those who are most vulnerable are the over 50s, the unemployed, and single parents, with an estimated 1.1million over 50s having debt problems.

The proliferation of zero-hour contracts is also a driving factor for the debt spiral. Recent figures from the Office of National Statistics reveal that half of all big firms in the UK use a total of 1.4 million of these contracts, with another 1.3 million contracts where no work was undertaken. This amounts to about a tenth of the UK workforce subject to these contracts, and so to unreliable incomes. Another factor is the strain on unemployed parents, which is so severe that one third have had to borrow to afford school uniforms.

Adjusted for inflation, relative incomes have risen. The UK has become the fastest-growing developed economy, giving Chancellor George Osborne confidence that his debt-reduction policy has helped the economy success. The rise in household debt will call into question though how much of UK growth is due to debt rather than the Chancellor's policies. If the current trend continues until the next election, Osborne will have to answer difficult questions over whether the growth is sustainable.



One comment

Gary

8 Aug '14 at 9:31 am

"It blamed rising energy bulls" typo

[Report](#)

Most Read Discussed

1. [The York floods 2015: What's the damage?](#)
2. [What does Theresa May's new Brexit plan mean?](#)
3. [A workplace revolution: a four-day week?](#)
4. [An update on the US-China trade war](#)
5. [The University as your landlord: friend or foe?](#)
6. [Managing your finances at university](#)

Write for Nouse Business

[Get in touch with the editors](#)

[Join the Facebook group](#)

More in Business

[What does Theresa May's new Brexit plan mean?](#)

[The University as your landlord: friend or foe?](#)

[An update on the US-China trade war](#)

[A workplace revolution: a four-day week?](#)

[Managing your finances at university](#)

[Tesco launches new discount store chain Jack's](#)

- [About Nouse](#)
- [Who's Nouse](#)
- [Website Credits](#)
- [Contact Us](#)
- [Advertising](#)
- [Archives](#)
- [Student Discounts](#)
- [Print Editions](#)
- [Mini-Sites](#)
- [Nouse on Twitter](#)
- [Nouse on Facebook](#)
- [Nouse on Google+](#)

