Britain awash with debt

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Britain is drowning in a sea of consumer debt, with potentially catastrophic consequences for the future. Such are the dire warnings made in the wake of a number of reports on household debt released over the last weeks.

A quarterly bulletin by the Bank of England reveals that consumer borrowing relative to income has tripled since 1980. Since 1998 it has increased by 25 percent, and currently shows no sign of slowing. Average household debt has now increased to just under £6,900, the bulletin states.

The increase is largely due to a rise in the number of households in debt, rather than in the amount of debt per household, the Bank reports. House prices have increased at an average monthly rate of 1.1 percent since August, double the rate of the last 20 years. The average house price is now £133,908—almost five times the average annual salary.

This has helped fuel unsustainable levels of borrowing, which has led to a record £5 billion worth of debt being chased by debt collectors.

The level of arrears being passed to debt collection firms has soared 70 percent since 2001, a report for the Credit Services Association (CSA) found, with 20 million new cases being passed on from credit firms to debt collectors in the past year. But this represents only a fraction of the estimated £60 billion of bad debt.

Unsecured personal debt, such as credit cards and loans, has now reached a record £140 billion, with the Consumer Credit Counselling Service reporting that its client's average personal debt is £24,000.

The Citizens Advice Bureau (CAB) says that it has helped with more than 670,000 consumer credit debt problems in the last year. It reports that the high rate of interest payable on credit cards contributes to rising levels of debt. Someone with £2,000 on a credit card, repayable on an interest rate of 15 percent, could pay £649 in compound interest over eight and a half years if he only paid the minimum 5 percent each month.

Such extortionate levels of interest hit the headlines last week when Barclays chief executive Matt Barrett admitted that he would never use his own bank's credit card because it was "too expensive" and was no way to fund "chronic borrowing."

Giving evidence to the Commons Treasury select committee set up to review consumer debt, amongst other issues, Barrett said, "I do not borrow on credit cards. I have four young children. I give them advice not to pile up debts on their credit cards."

Whilst overall interest rates have fallen by two thirds in the past 11 years, interest charged on a Barclaycard has fallen by just 3.5 percent to 17.9 percent over the same period. Such charges enabled Barclays Bank to announce a better-than-expected 12 percent profit in the first half of this year, with pre-tax profits rising to £1.96 billion in six month ending June 30.

With lenders targeting homeowners for loans and mortgage equity withdrawal (whereby customers borrow against the rising value of their homes), a rise in unemployment and/or interest rates could leave thousands unable to meet debt repayments and facing the prospect of losing their homes.

The increase in borrowing has been generally attributed to people "feeling rich," being "greedy" or just too impatient to wait to make purchases. In truth, it reflects the fact that growing numbers are finding it increasingly difficult to fund basic necessities. A CAB survey found that one in five people borrows money to pay for ordinary household bills, and that nearly one third found it difficult to keep up bill and credit repayments.

A report by pay analysts Incomes Data Services (IDS) earlier this year revealed that almost two thirds of workers in the UK earn less than the supposed national weekly average of £465 a week. The higher figure is largely accounted for by significant increases amongst a narrow layer of top earners, mainly in the City of London.

The IDS report found that the situation had worsened since Labour came to power in 1997. This was despite the introduction of a national minimum wage, which the IDS found had had "little impact on the growth in overall earnings inequality."

The outcome was made clear by separate figures showing that millions of Britons are struggling to pay for essential utilities, such as water, energy and a home telephone line.

The National Consumer Council found that 3 million households cannot pay their energy bills, that 4.7 million households are in debt to water companies, and that more than 1 million have had their home phone cut off.

It also found that every winter an extra 20,000 to 50,000 people die due to the lack of adequate heat in their homes—one of the highest incidences of cold-related winter deaths in Europe.