Britain: families depend on credit to survive

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According to the Bank of England, personal debt, including home loans and consumer credit, has hit the staggering level of £980 billion—double that of 10 years ago and up 14.1 percent in just the last 12 months.

With new loans increasing at the rate of £10.7 billion a month, personal debt is set to breach the 1 trillion mark—£1,000 billion—in the summer. This means that personal debt will exceed the UK's annual national income from its production of goods and services for the first time. To put it an international context, it means that the personal debt of Britain's 58 million people is greater than the entire external debt of Africa, Asia and Latin America combined.

The figures are quite stark:

* Mortgage lending is up 14.5 percent on a year ago.

* Consumer credit is up by 12.5 percent over the same period.

* According to one source, average household debt is £6,800 excluding mortgages and £70,000 including mortgage payments.

*Average personal debt, excluding mortgages, for each adult in the UK is £4,426—a rise of 30 percent in the last 12 months.

* Personal debt has grown twice as fast as income since 1997 when Tony Blair's New Labour government came to power. On average, personal debt has risen by 50 percent while incomes have increased by only 23 percent.

* Total household debt is now the equivalent of 135 percent of post-tax incomes, compared to 100 percent at the peak of the last housing boom in the late 1980s.

* The average person now works 45 days just to pay off the interest on his or her debts.

These statistics mask an uneven distribution of debt that mirrors the social divisions in society. According to the Financial Services Authority, two thirds of families are in debt. In September 2003, when interest rates were 3.5 percent, 36 percent of families struggled or fell behind with one or other form of borrowing. Should the Bank of England's base rate rise 2.5 percentage points—a level far from impossible since it has already risen more than 1 percentage point since then—only 44 percent of families said they could cope without difficulty.

These figures are important for several reasons. The statistics mask the inability of the capitalist system to provide decent housing for all at an affordable price. They provide damning evidence that Britain's well-paid corporate bosses pay the mass of the population wages insufficient to cover the cost of housing, transport and other essentials for life in the twenty-first century, let alone to save for a retirement pension.

Behind the statistics lies a catalogue of human misery, broken relationships and stress as families struggle to keep up with their mortgages, pay their utility bills and fend off the bailiffs. The majority of the population only survive because of the availability of credit. But it is this debt and the social suffering that accompanies it that fuel the soaring profits of Britain's banks and finance houses.

At the same time, the statistics demonstrate that New Labour's so-called "gilded economy" is little more than a retail boom built on the flimsy foundations of cheap consumer credit: consumer spending has outperformed growth in GDP for the sixth successive year. The rise in debt is undoubtedly a factor in explaining why the government has enjoyed a historically low level of workplace and political strikes: workers are reluctant to lose a day's pay.

A rise in interest rates could bring the entire edifice crashing down like a pack of cards, rendering millions of workers and their families homeless and destitute, making the Great Depression of the 1930s pale into insignificance by comparison.

By far the largest form of debt (80 percent of the total) is mortgages on homes, giving the lie to newspaper headlines lambasting the public for "living it up" on credit. In February 2004, total secured lending on homes was £784 billion, up from £346 billion in February 1994 and £459 billion in February 1999. In other words, the cost of housing has doubled since Labour came to power.

The rising property market—itself the product of the frenzied orgy of financial speculation in the City that has sought to put its money into bricks and mortar—has created an affordability crisis as average mortgage repayments reach an unsustainable proportion of household incomes.

With house prices rising by at least 10 to 20 percent a year, the average price of a house in January 2004 was more than £160,645, nearly seven times the average wage. This translated into an average mortgage of £111,900 in September 2003, 29 percent higher than in 2002 and more than double that of five years ago. The average cost of a home for first-time buyers was £127,389, more than five times the average wage, with the cost of the average deposit rising from £5,400 to £20,000 in a decade. Not surprisingly, the number of first-time buyers slumped to the lowest level on record in 2003.

Adam Sampson, director of the housing charity Shelter, said, "Our affordability index shows that, as the housing crisis deepens, more and more people are unable to afford a home in the market. A more unaffordable housing market puts pressure on the limited supply of social [low-cost] housing and means more people are trapped in emergency housing. So for the record number of families who are trapped in a cycle of bad housing, the prospect of a decent place to live is fading further into the distance by the year."

Whereas in 1974, gross mortgage lending was equivalent to about 5 percent of gross annual disposable household income, in 2003 it had reached a massive 36 percent. But the rising debt secured against housing masks another factor—an unprecedented surge in mortgage equity withdrawals or secondary mortgages, as homeowners have increased their secured loans to pay off other unpaid bills.

As housing costs have soared and two incomes are needed to service mortgage repayments, little remains for either the big-ticket items or everyday bills. As a result, personal loans and consumer credit have risen to £172 billion in 2004, up from £53 billion in February 1994 and £103 billion in February 1999, and more than doubled since Labour came to power in 1997.

According to a report compiled by Richard Talbot for Credit Action, nearly two thirds (62 percent) of households with incomes of £25,000 to £34,999 fail to clear their credit card debts each month or have other loans. Fifty-eight percent of households with incomes of £35,000 to £59,999 had outstanding personal debts at the end of each month, while 48 percent of households with an income of more than £60,000 were in debt. At least 20 percent of people rely on personal loans and credit to survive until payday.

According to Credit Action, more than 3 million people are struggling with their gas and electricity bills, 4.7 million owe money to the water companies and more than a million have had their telephone cut off.

As debts have mounted, people have resorted to loan sharks for additional funds. According to a *Guardian* report, Church Action on Poverty, a campaigning group, found that rapid-loan firms and doorstep loan companies charge up to 425 percent interest compared with 12 percent at a building society. With more than 8 million people excluded from conventional bank lending, the most vulnerable members of society have no option but to turn to moneylenders—euphemistically known in the financial services industry as "sub-prime lenders"—who charge usurious rates. A Datamonitor survey on the sector saw it as a growth industry. While many have called for interest rates to be capped, the survey believed that government proposals for the sector, outlined in a White Paper, "pose little threat."

The typical household falling into debt now owes £25,000, spread across 15 different lenders. An astronomic 20 million cases have been passed to debt collectors over the past year. Britain's bailiffs are now chasing a record £5 billion of unpaid debt, an increase of 70 percent over the last two years.

The Citizens Advice Bureau advisors have dealt with a massive 47 percent increase in the number of new consumer debt problems over the last five years, with more than 1 million debt issues in the financial year 2003-2004. The Consumer Credit Counselling Service says that while its clients have an average of £25,000 debt, many owe more than £100,000 excluding mortgages. According to the Department of Trade and Industry, 10,271 individuals in England and Wales became insolvent in the last three months of 2003, a 29 percent increase on the same period in 2002, and the highest figure since the recession in 1993.

For millions of Britons, debt means ever-mounting anxiety and distress. One third of people regard their debts as a burden and 10 percent as a "heavy" burden. Two of the most affected groups are pensioners—the Prudential Insurance Company estimates that 2 million pensioners are in financial difficulties—and students and young graduates, who say that debt is at the forefront of their minds and talk about it as the most stressful problems in their lives. According to the family counselling service, Relate, the biggest cause of rows within a relationship is not infidelity but money.

A report by Virgin Money earlier this year revealed that Britons had written off £3.4 billion in debts to friends and family. Seven out of 10 people have lent money and more than half never got it back. Almost three quarters of the people questioned said they had got into serious arguments or even ended relationships as a result of lending cash.

One quarter of those in debt are receiving treatment for stress, depression and anxiety from their family doctor. More than a few have found debt too much to bear. Tragic cases of heavily indebted families have made the headlines. Earlier this year, Stephen Lewis, a young father, unable to cope on his salary of £22,000 a year, ran up debts of £70,000 on 19 credit cards and, hounded for repayment of some of his debts, hanged himself.

But the trillion-pound personal debt has meant a bonanza for Britain's high street banks. Profits at HSBC were up by a third at £7.4 billion. The Royal Bank of Scotland's profits rose 20 percent to £6 billion. Barclays profits rose by 20 percent to £3.8 billion while Aviva insurance rose to £2 billion. Halifax/Bank of Scotland, which accounts for nearly a quarter of home loans under its Halifax brand, saw profits rise by 29 percent to £3.8 billion. Even Abbey National/TSB, the former building society turned bank that had squandered billions in disastrous acquisitions, reduced its losses from £1 billion to £700 million.

According to Martin Cross, a banking analyst at Teather & Greenwood, much of the increase in the banks' UK profits is down to the hard sell by thousands of finance workers in the retail sector. In short, the banks have prospered on the back of crippling personal debt and the inducements offered to the financially imperilled by their own low-paid staff. In a cynical comment, Cross added that when interest rates rise, staff would be busy chasing unpaid loans and repossessing the homes of people they were previously being encouraged to loan to.

The rise in personal debt is bound up with the increasing financialisation of the economy.

While workers in the immediate post-war period traditionally bought consumer durables on hire purchase, the availability of consumer credit on a large scale is a much more recent phenomenon. Though charge cards, immortalised in the film *The Man from the Diner's Club*, were launched in the United States in the early 1950s, credit cards did not really take off until the creation of the magnetic authorisation strip in 1970.

In Britain, financial deregulation in the mid-1980s meant that banks could compete with the US credit companies such as American Express for a share of the consumer credit market. Building societies—the traditional providers of home loans—demutualised and were rapidly bought up by the high street banks. Consumers were bombarded with mailshots offering new credit card deals, advertisements for credit and promotions to encourage young people to run up overdrafts and take out loans and mortgages.

Similarly, as car and consumer electronics manufacturers and all the major stores found it increasingly difficult in the face of cut-throat competition and the falling rate of profit to make the rate of return on capital employed that the stock markets required, they turned to consumer finance as a way of selling their products. By the 1990s, many corporations from Fords to Marks & Spencer were making a greater return from their finance subsidiaries than from manufacturing or selling their products.

But financial deregulation and this increase in personal debt are also part of the wider onslaught on jobs, wages, conditions and the welfare state of the last 25 years, which had at its heart a deliberate offensive by the corporations and their political representatives to increase their wealth at the expense of the majority.

Some of the key reversals of the gains made by the working class in the twentieth century that have precipitated the rise of personal debt have been the decline in the level of social security payments and pensions and the reduction in the scope of the National Health Service that has led to an increase in prescription charges, the ending of optical services, and the virtual elimination of dental care and long-term care. The run-down state of education and other public services has led some people to seek expensive, commercially provided alternatives. The abolition of student grants for Higher Education and the introduction of tuition fees for university education have led young people to starting their careers with debts of £15,000. This is set to rise even further as new legislation currently going through parliament will free universities to charge variable fees.

But by far the most important factor was the privatisation of the public housing stock, which has served both to fuel personal debt and to exacerbate the shortage of affordable decent housing that has in turn pushed up the cost of housing.

Britain has the highest proportion of home ownership in Europe. Furthermore, whereas 10 years ago, slightly more than half of all mortgages were variable, not fixed rate, by last March, 72 percent were variable rate—far more than in the US, where flexible mortgages account for just over 30 percent of new lending. This is what makes British workers so vulnerable to changes in economic conditions.

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