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# Household debt and Gender

*Briefing from the UK Women's Budget Group on the gender impact of changes in housing policy since 2010*

**October 2019**

## Household debt, austerity and gender

Briefing from the **UK Women's Budget Group** on rising household debt levels, austerity and gender

### Key points

- **Household debt levels are at an all-time high.** In 2017, UK households saw their outgoings surpass their income for the first time since 1988.
- In 2019, UK Households collectively owe £1.6 trillion, which is **13% higher than at the time of the 2008 Global Financial Crisis**, paying an estimated £50 billion per year, or £137 million per day, in interest payments.
- According to debt advice provider Money Advice Service, in 2018, **1 in 6 individuals in the UK are over-indebted**, approximately 8.2 million in total. Compared to the UK as a whole, the over-indebted population is **younger and more likely to be female (55%), have children (58%) and live in private-rented accommodation.**
- Since 2014 women have been more likely than men to go insolvent: the insolvency gender gap is particularly pronounced among **young women who are a third more likely to go insolvent than their male counterparts.**
- Women are also more likely to incur debt to pay for everyday necessities. According to debt advice provider StepChange, **61% of those getting into debt to purchase everyday necessities are women.**
- For some women, **debt can also be the result of economic abuse in a relationship.** In a survey of victims of intimate partner abuse, 61% said they were in debt because of financial abuse.

Household debt levels are at an all-time high, higher than before the 2008 financial crisis. In 2017, UK households saw their outgoings surpass their income for the first time since 1988.<sup>1</sup>

Households took out nearly £80 billion in loans last year, the highest annual increase in debt in a decade; but they deposited just £37 billion with UK banks, the least since 2011. Unsecured debt as a share of household disposable income reached a peak in the first quarter of 2019<sup>2</sup> and is forecast to continue to rise over the coming years (see Figure 1, next page). All in all, households are borrowing more and saving less.

Household debt is unevenly distributed across

income groups, and serves different purposes depending on socio-economic status and need. Household debt is not universally bad. A small number of households benefit through debt-funded asset accumulation.

Many others, who are primarily using debt for consumption, do not increase their wealth through their borrowing. Income is the key determinant as to whether debt is used to invest in assets or fund consumption,<sup>3</sup> and this in turn interacts with wider socio-economic inequalities, such as gender and race.

<sup>1</sup> ONS (2018) *Making ends meet: are households living beyond their means?* <https://bit.ly/2JT5DuU>

<sup>2</sup> Trade Union Congress analysis of 2019 ONS data <https://www.tuc.org.uk/blogs/record-household-debt-levels-show-why-workers-need-new-deal>

<sup>3</sup> Bunn and Rostom (2016) *Household debt and spending in the UK* <http://sticerd.lse.ac.uk/seminarpapers/wpa11052016.pdf>

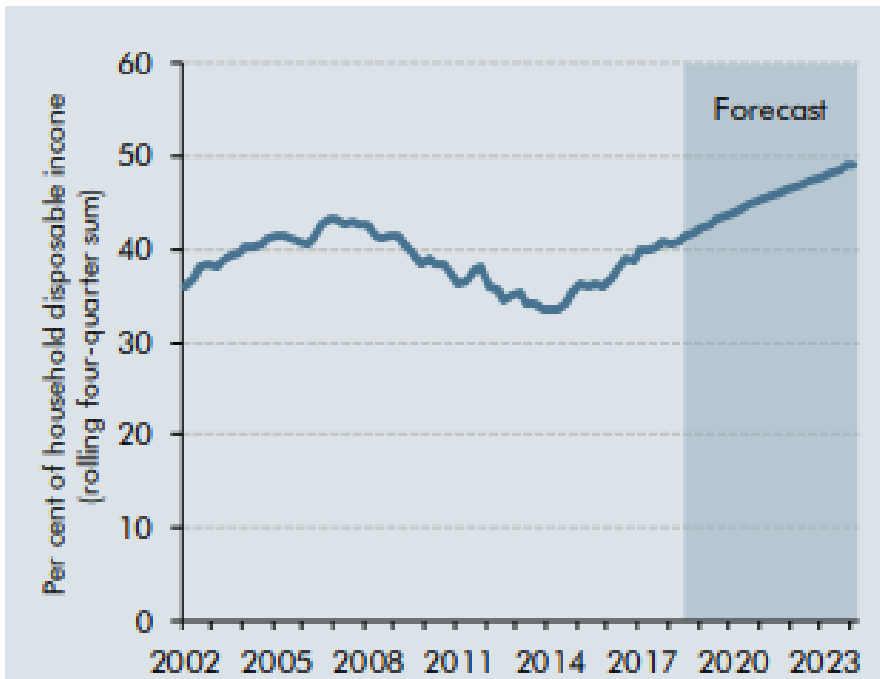


Figure 1. Unsecured household debt as a share of household disposable income. Source: ONS/OBR<sup>4</sup>

The effects of debt are both economic and social. This briefing is concerned with unpicking the interconnections between the economic and the social costs of debt, particularly on those from lower-income households, the majority of whom are women.

These households, who already face economic hardship, may need to borrow for necessities (e.g. food, shelter) and yet are often also forced to pay the most in interest rates. By contrast, households on higher and more stable incomes can often borrow more cheaply to fund consumption (e.g. holidays or luxury items) and asset accumulation.

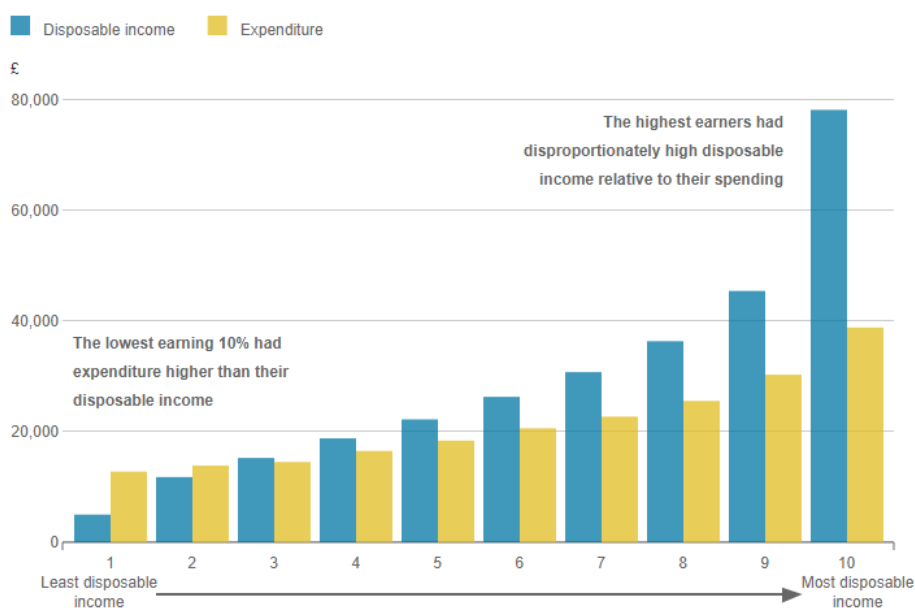


Figure 2. Income and expenditure per household in the UK. Source: ONS 2018<sup>5</sup>

<sup>4</sup> OBR (2018) *Economic and Fiscal Outlook* (<http://bit.ly/2No4cIK>) p. 68

<sup>5</sup> ONS (2018) *Making ends meet: are households living beyond their means?* <https://bit.ly/2JT5DuU>

Figure 2 shows that the poorest two deciles of households on average have expenditure higher than their disposable income. These are households that are more likely to need to use debt to fund consumption.

Women are over-represented in these households due to their lower incomes relative to men, as are those from a minority ethnic background. Research from the Money Advice Service in 2016<sup>6</sup> found that of the approximately 8.2m over-indebted people<sup>7</sup> in the UK, 55% were women.

Young people are significantly more likely to be

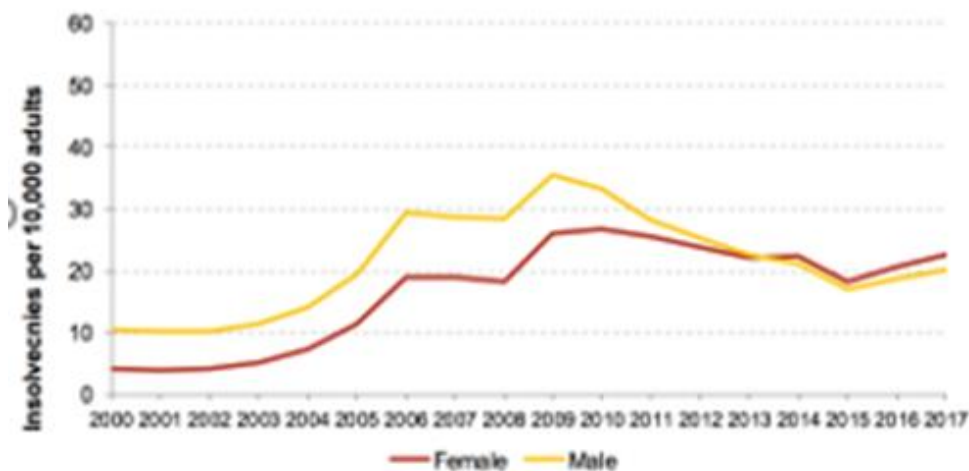


Figure 3: Insolvencies per 10,000 adults by gender, 2000-2017. Source: The Insolvency Service<sup>11</sup>

Historically, men in England & Wales have had higher insolvency rates than women but this has now reversed. Since 2014, the gender gap in insolvencies has widened steadily from 1 in 10,000 in 2014 to 2.4 in 10,000 in 2017 (see Figure 2).<sup>12</sup>

Notably, the insolvency gender gap is particularly pronounced amongst young people; 25-34 year-old women are over a third more

indebted and 74% of those aged 25-34 describe repaying debt as a burden.<sup>8</sup> The debt of young people often turns into a family issue, as it is known that ‘bank mum and dad’ is an important mechanism of financial help.<sup>9</sup>

Debt-based gender inequalities are evident also in the breakdown of people filing for debt relief. In 2017, the insolvency rate in England & Wales was 21.4 insolvencies per 10,000 adults. This followed two years of growth in the insolvency rate from its post-crisis low of 17.6 insolvencies per 10,000 adults in 2015.<sup>10</sup>

likely to go insolvent than their male counterparts. This is also the age bracket with the highest rate of over-indebtedness as a whole.<sup>13</sup>

With interest rates set to increase steadily over the medium-term, we can expect to see the numbers of those struggling to pay debts grow bigger, as well as a further rise in default rates and insolvency filings. As such, we can expect women already at the bottom of the income distribution to be adversely affected.

<sup>6</sup> The Money Advice Service (2016) cited in <https://bit.ly/2bl1DIT>

<sup>7</sup> Over-indebtedness was defined as “individuals who have been at least three months behind with their bills in the last six months or have said that they feel their debts are a heavy burden.” Ibid. p. 1

<sup>8</sup> Trade Union Congress analysis of BoE/NMG Household Survey data. <https://www.tuc.org.uk/blogs/record-household-debt-levels-show-why-workers-need-new-deal>

<sup>9</sup> Financial Times ‘Capitalism. Time for a Reset’ agenda <https://aboutus.ft.com/en-gb/new-agenda/>

<sup>10</sup> The Insolvency Service (2018) *Individual Insolvencies by Location, Age and Gender, England and Wales, 2017*. <https://bit.ly/2Cbz4s0>

<sup>11</sup> The Insolvency Service (2018) *Individual Insolvencies by Location, Age and Gender, England and Wales, 2017*. <https://bit.ly/2Cbz4s0>

<sup>12</sup> Ibid.

<sup>13</sup> FCA (2017) *Financial Lives Survey 2017*. <https://bit.ly/2xWsYdV>

## ***What is fuelling the rise in female insolvencies and indebtedness?***

With austerity in public finances leading to cuts in social security provision alongside falling wages and rising housing prices, there is evidence that household borrowing is making up the shortfall for those on low incomes.<sup>14</sup> By requiring households to use private debt in this way to make up for lost social security provision and higher costs of living, austerity has effectively seen a transfer of public debt to private individuals, many of whom can least afford it.

The disproportionate impact on women, ethnic minorities and young people of public finance austerity has been well documented. Analysis published by the Women's Budget Group and Runnymede Trust found that women, ethnic minorities, disabled people, lone-parent families and poorer households have borne, and will continue to bear, a disproportionately large share of the burden of austerity. Asian women in the poorest third of households, for instance, lose on average 19% of their income by 2020 (over £2,200) compared to if the policies in place in May 2010 had continued to 2020.<sup>15</sup> By 2021-22, 59% of the cumulative social security cuts will have come from women's purses.<sup>16</sup> Given this disproportionate impact and the scale of the income loss, the rise in insolvency rates and indebtedness among those on low incomes is a concerning, but not surprising, development.

## ***The 'poverty premium'***

The high-cost credit industry has grown rapidly in the period since 2010. The so-called 'fringe finance' industry offers a range of small, high-cost and short-term loans targeted at low-income households. Toynbee Hall has focused in on high rates of interest on personal loans and how they are effectively a 'poverty premium' on low-

income households.<sup>17</sup> High-cost loans create a 'debt trap' because interest costs are so high that the total outstanding debt can quickly add up to more than twice the amount of the sum originally borrowed.<sup>18</sup>

In a July 2017 discussion paper, debt charity StepChange noted that 8.8m people had turned to credit to pay for their everyday expenses in the preceding 12 months.<sup>19</sup> Worryingly, 1.1m were using high cost consumer credit, such as payday loans and doorstep loans. Half of the people using high-cost consumer credit used it to pay for food/grocery shopping and a further 35% to pay for household bills.

## ***Looking beyond individual responsibility***

The Office for Budget Responsibility forecasts that household debt will continue to rise relative to incomes over the next period.<sup>20</sup> Policymakers have expressed 'concern' about levels of household debt but refrained from taking action to address either its causes or consequences. The so-called 'private' debt of households is often framed as a domestic matter: indebtedness is the result of an individual's inability to properly calculate how much debt they can afford or a moral vice in which individuals knowingly spend beyond the limits of income.

However, this is only part of the story. The growth of household debt over the past 20 years is the result of economic policymakers promoting debt-dependent growth in the UK. The failings of this private debt-led growth model are being put on the individuals that participate in it, rather than the policymakers that continue to promote debt-led growth.

Economic forecasts built on higher household debt levels ignore the emotional work of repayment. *Caring for debts* has consequences

<sup>14</sup> Barba and Pivetti (2009) *Rising household debt: Its causes and macroeconomic implications—a long-period analysis* (<http://bit.ly/2Wp2zOQ>); Moore and Stockhammer (2018) *The drivers of household indebtedness reconsidered* (<http://bit.ly/2BRqdKD>)

<sup>15</sup> WBG and Runnymede Trust (2018) *Intersecting inequalities: Executive summary* (<https://bit.ly/2F13jPr>)

<sup>16</sup> WBG (2018) *Social Security Briefing* (<https://bit.ly/2CzJ0vv>)

<sup>17</sup> Toynbee Hall (2018) 'Payday Denied: Exploring the lived experience of declined payday loan applicants' (<http://tiny.cc/e9hvez>)

<sup>18</sup> New Economics Foundation (2018) *End the Debt Trap Campaign* (<https://bit.ly/2PXrpBE>)

<sup>19</sup> StepChange (2017) *The High Cost of Credit* (<https://bit.ly/2IriYdu>)

<sup>20</sup> OBR March 2018 Economic and fiscal outlook (<https://bit.ly/2GtmNz8>) p. 68

that in extreme cases can lead to the dissolution of the household itself.<sup>21</sup> Gender dynamics in the household influence how finances are managed and debt burdens distributed.<sup>22</sup>

### **Household debt and economic abuse: coerced debt**

For some women, debt can also be the result of economic abuse in a relationship. Coerced debt is defined as 'debt generated through financial transactions which the victim is told to make (or is aware of the abuser making in their name) in a context where there are negative consequences for non-compliance'.<sup>23</sup>

Examples of this can include having sole responsibility for a mortgage or bill or taking on credit in their name only. In a survey on behalf of the Co-operative and Refuge, 1 in 10 women said that a partner had put debts in their name and that they had been afraid to say no.<sup>24</sup> Rates of coerced debt are higher among women in relationships where there was physical or sexual abuse. A survey of victims of intimate partner abuse found that 61% were in debt because of financial abuse.

Coerced debt threatens the economic security of women. It can have lasting impacts on the ability of victims to rebuild their lives by worsening not just their immediate financial position, but also their credit scores. This, in turn, can make it more difficult for those leaving abusive relationships to rent a home, make purchases on loan, or open certain types of utility accounts.

### **Recommendations**

Household debt is growing. For those on lower incomes, there is evidence that debt is being used to make up for declining real wages and cuts to

benefits. WBG urges the government to address the causes of rising debt among those on low incomes, as well as regulate the terms of borrowing in the 'fringe' industry.

Furthermore, we urge policymakers to recognise the gendered dimensions of the social and economic costs that debt has on families; coerced debt as a significant barrier to women's economic independence and urge steps to be taken to enable women exiting abusive relationships to be able to access tenancies and credit.

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#### **UK Women's Budget Group, October 2019.**

WBG is an independent, voluntary organisation made up of individuals from Academia, NGOs and trade unions. See [www.wbg.org.uk](http://www.wbg.org.uk)

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<sup>21</sup> Montgomerie and Tepe-Belfrage (2017) *Caring for debts: How the household economy exposes the limits of financialisation* (<http://bit.ly/2Wogq1l>)

<sup>22</sup> Goode (2010) *The role of gender dynamics in decisions on credit and debt in low income families* (<http://bit.ly/2prLnw3>)

<sup>23</sup> Surviving Economic Abuse (2017) *Responding to coerced debt: Consumer advocacy for survivors of economic abuse* (<https://bit.ly/2CC5FHD>)

<sup>24</sup> Sharp-Jeffs, N. (2015) Money Matters. Research into the Extent and Nature of Financial Abuse Within Intimate Partner Relationships in the UK London: Refuge and The Cooperative Bank (<https://bit.ly/2PITRkl>)