

Study finds indebtedness among low income households worsened under government austerity measures

February 12 2019



Credit: CC0 Public Domain

A paper recently published in *New Political Economy* by a team of academics led by Hulya Dagdeviren, Professor of Economic

Development, University of Hertfordshire, concludes that austerity measures over the past decade, especially the cuts in welfare and local government budgets, accompanied by a range of disciplinary measures, pushed the very poor into various forms of debt by severely limiting their means of subsistence.

The study is the first to review the impact of the ten-year period of [austerity](#) measures on indebtedness amongst low income households, as well as the impact of the recession immediately after the 2008 financial crisis. The study found that while the proportion of households with financial liabilities (excluding mortgages and student loans) declined slightly in 2006/2008 – 2014/2016, average household debt increased by around 43 per cent.

Unlike the pre-crisis period when low income household debt reflected aspirations for home ownership or 'keeping up with the Joneses', under austerity debt or arrears for essential needs such as rent, food, energy and water, account for a significant proportion of low income household indebtedness. In contrast to what is usually presumed, the study found that creditors are not only banks, payday lenders or pawn shops, but also local authorities (LAs) as well as private companies.

The debt-to-income ratio for the poorest 10 percent of the population grew from 140 percent in 2005-6 to 190 percent in 2012-2013, representing the largest growth in the degree of indebtedness in comparison to other income groups, a few years after austerity programme first rolled out. The proportion of individuals holding debt in the lower income groups also increased after the crisis, as opposed to the contraction in the corresponding indicator for most above the average income groups.

Rising demand for debt advice corroborates the intensifying debt pressures amongst low income households. For example, the number of

people who received debt advice from StepChange Debt Charity increased six fold within a decade. In 2016, the charity was contacted by a record number of nearly 600,000 people for help together with 3.3 million visits to its website. (StepChange 2016 Statistics Yearbook).

The study found that in 2012–13, several years after the austerity measures first rolled out, a greater proportion of the poorest households in the lowest ten percent income category had arrears of essential bills. Over one-fifth of the UK Household Longitudinal Survey respondents in that category found it hard to keep up with their housing payments and around 18 percent were behind with payments for essential household bills (StepChange 2018). The rising debt for essential household spending is also confirmed by Citizens Advice (2018) and National Audit Office (2018) that provided a minimum estimate of £18 billion in personal debt owed to government, utility companies, landlords and housing associations.

"The governments that provided direct support to financial institutions to maintain their solvency and profitability after the [financial crisis](#), have only afforded punitive measures to the poorest sections of society in Britain and directly contributed to their [debt](#) burden. The introduction of austerity programmes is supposed to be for the short to medium term until some level of stability is achieved, but the continuing persistence with austerity and welfare retrenchment a decade after the 2008 crisis bears the potential for these changes to be structural and to exacerbate the problems with indebtedness among low [income households](#) into the future," said Hulya Dagdeviren, professor of economic development, Business School, University of Hertfordshire

More information: Hulya Dagdeviren et al. Financialisation, Welfare Retrenchment and Subsistence Debt in Britain, *New Political Economy* (2019). [DOI: 10.1080/13563467.2019.1570102](https://doi.org/10.1080/13563467.2019.1570102)

Provided by University of Hertfordshire

Citation: Study finds indebtedness among low income households worsened under government austerity measures (2019, February 12) retrieved 27 April 2024 from <https://phys.org/news/2019-02-indebtedness-income-households-worsened-austerity.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.