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Waves of Household Lending and Debt: Showing the Pulse of Economic Growth and Crisis

Zsuzsanna Pósfai

How capitalist housing systems rely on debt

Capitalist housing systems, and in general, contemporary forms of capitalist growth are inherently tied to household indebtedness. On the one hand, access to housing is increasingly dependent on debts due to rising house prices and the deepening financialization of housing. On the other hand, household debt plays an important role in capitalism because it fuels consumption, which is an important driver of economic growth. At the same time, household debt has also become a form for investing surplus capital accumulated by large financial actors. As a recent report[1] by the UN Independent Expert on the effects of foreign debt states, the globally increasing stock of private debt, and within that household debt should raise serious political and social concern. The increase in household debt (for housing and other purposes as well) has two main reasons: (1) the deepening processes of financialization and (2) the withdrawal of states from the provision of basic services.

(1) In periods of financialization (as we are experiencing since the 1970s), there is an increasing amount of capital on financial markets which is looking for ways to be invested.[2] Household debt has become a channel for investing this surplus capital. Household loans, especially mortgage loans (which are larger in volume) are convenient forms for putting out more money. Lending to households can be rapidly increased under a short period of time, and it is possible to manage them in a quasi-automatized way, since the "financial product" will not be very different from one customer to another. Furthermore, residential real estate has become one of the most profitable forms of investment.[3] Thus, since around the turn of the millennium there has been an increasing amount of money flowing into housing through individual loans. This was only briefly halted by the financial crisis of 2007–2008.

(2) In the past decades, it has been a general tendency of states around the world to withdraw from the domain of housing. As a result, the provision of housing has been left to households and to market actors. A combination of more money from the market (see

first point) and less state participation has led to drastically increasing house prices. As a result, households encounter more and more difficulties to afford decent housing. Savings or family support mechanisms can no longer keep up with the rise in prices, since wages have been growing at a much slower pace in most countries of the world.[4] Thus, from the perspective of households, taking loans is a way to secure their housing in the context of an increasingly commodified housing market and rising house prices. These loans are not only classical housing loans (mortgages), but can also be personal loans or consumer loans, which are easier to acquire, but are more expensive and risky forms of credit.[5] In relation to housing they can be spent on paying utilities, rent, the downpayment for a private rental, or necessary renovation costs.

A side-effect of increased house prices is that households have less money for other costs of living. The share of income spent on housing-related costs is on average around 20% in the EU, however this covers large variations.[6] Single parents (spending 30% of their income on average) or persons living alone (32% of their income), as well as households living in private rental (40-60% of their disposable income is spent on housing costs across Europe) are the most vulnerable groups from this perspective. In each category, the proportion of income spent on housing increases by about 20% if the household is at risk of poverty. High housing costs can thus force households to take other loans (often more predatory forms of loans) to make ends meet. This creates a particularly high risk of a debt trap among lower income households.

Debt: A lever or a trap?

A common argument in favor of more household lending (especially in the case of mortgages) is that it responds to current needs while offering the possibility to spread costs over time, and that it thus creates a possibility of homeownership for those who do not have large individual savings or wealth. This is true, but not indistinctively: A loan can also easily lead to a debt trap for many households. The line between a loan becoming a lever or a trap depends on the social and economic circumstances of the debtor household (i.e. how difficult will it be for them to repay) on the one hand, and on the conditions of the loan being given (interest rate, duration, etc.) on the other. However, since the conditions of the loan are also largely determined by the borrower's socio-economic status; this conditionality is further strengthened. Thus, lower-income households systematically only have access to riskier and more expensive loans (often in the form of personal unsecured loans or consumer loans) than their middle class or higher income counterparts. Put simply, those households, who are relatively better off, have a lot to gain with a loan, while the worse-off households take on a significant risk.

This distinction also has a macro-economic aspect to it: In more stable national economies, where households have higher levels of savings and general economic conditions are not as volatile, taking loans is also less risky for households. Generally, situations of over-indebtedness (when debt starts causing financial problems in the household) and the resulting pressure on households and society is much more characteristic of lower income, (semi)peripheral countries[7] of the global economy. High levels of household debt have also been demonstrated to contribute to higher levels of social inequality, macroeconomic instability and financial crises.[8] The use of household lending as a way to alleviate poverty through "financial inclusion"[9] is not an adequate response, and cannot substitute public involvement in dire social issues.[10] The exploitative nature of household lending (specifically lending which targets poor households) becomes clear at times of crisis, when households start defaulting in large numbers. This exploitative nature is, after all, intrinsic to loans themselves: In the form of interest payments a debtor always repays more than what they borrowed.

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The cyclical aspect of housing debt

The cycles of household lending show the pulse of economic cycles of growth and recession; also strengthen these economic cycles in both directions.[11] In the following, I give a brief sketch of how these cycles roll out.

1- Economic expansion:
In periods of economic expansion, capital looks for new forms of investment. Real estate is usually considered a safe and profitable investment, which increases capital flows towards this sector. In periods of expansion, levels of unemployment are low and people start counting on a more stable economic and employment environment. Thus, both sides of an increased volume of household lending are in place: large stocks of available capital and households willing and able to take loans. Furthermore, governments are also interested in increasing household lending, for various reasons. Primarily, because it boosts general economic figures and increases growth; but it is also a politically useful tool in winning wide segments of the middle class. As a result of the combination of these factors, household lending can rapidly increase. The year-on-year relative increase in household lending can be especially sharp in semi-peripheral places of the global economy (such as Hungary), where there is a tendency for capital from core countries to "flood" the markets in growth periods, while quickly retreating in crisis periods, thus creating large volatility on housing markets.[12]

Recent such periods of credit expansion were between 2000 and 2008 and from 2015 onwards (which now seems to come to an abrupt halt in 2020 due to the COVID-19 pandemic and its economic consequences). Between 2000 and 2008 mortgage loans were distributed in a rather unchecked way, including large parts of society in mortgage-based homeownership. This overinclusive lending practice showed its flipside after 2008.

2- Crisis:
In periods of crisis, household loans quickly become an everyday problem for households. As people lose their jobs they can't pay their loans, and often even take on further debt because of their difficulties to pay for everyday expenditures. On the other hand, financial institutions try to manage risk and drastically decrease or tighten

new lending, as they fear lack of repayment. This further contributes to economic downturn.

In periods of crisis, the social consequences of extensive and overinclusive lending become apparent: As a result of recession the debt burden on households becomes increasingly difficult to bear, as their income levels decrease. This leads to many households defaulting on their loans which, eventually, leads to the loss of housing for many. Even when a spiraling debt does not result in the auction of the debtor's home, it has far-reaching consequences on households' possibilities of livelihood. An important aspect of this is that the debt will continue to be deducted from their future income for many years to come.

Furthermore, the rapid build-up of household debt can also be understood as an indicator of financial instability. Evidence suggests that rapid increases in household debt, followed by large drops in household spending usually precede economic crises. What is more, the faster household debt builds up, the larger the following recession will be.[13]

3- Slow economic revival:
After a crisis, the main approach of decision-makers in restarting the economy is usually to make it possible for businesses to go on. Thus, many of the political measures will serve this purpose, while households struggling with their unpayable debt are seldom heard (or only to the extent to avoid large political losses). Often, government measures helping indebted households will target higher-status households, who are seen as "more important" both in terms of political vote and future consumption potential.

An important element for banks to be able to recover and expand their business again is to clean their portfolios of non-performing loans (NPLs). This is most often done either by writing the loans off, or by selling them to debt collector companies. Selling NPLs allows financial institutions to get back a part of the money they were expecting on these defaulted loans, but more importantly, it allows them to start lending again to new customers. This move of selling the loan, however, does not solve the situation of households, who still have the same debt, now increased by various penalty and handling fees.[14]

In the new upswing of household lending since 2015 it has been a global tendency that lower-income groups are pushed towards more expensive and more risky loans. Since housing loans (mortgages) played an important role in the 2008 crisis, they were regulated in a much stricter way. As a result, lower income households (or those in precarious employment) have difficulties to take a mortgage and instead turn towards various forms of personal, unsecured (that is, not backed by real estate) loans. This has given rise to high levels of non-housing debt worldwide, but these loans nevertheless serve housing purposes for a large percentage of households.[15]

In the phase of economic revival, the debt trap also shows its high human costs: As housing market activity picks up, the number of evictions increase, while those who are still in personal insolvency cannot even take on new formal employment due to debt executions on their income. In this part of the cycle financial institutions and debt collector companies both can increase their market activity, the pressure on better-off households is lifted, while households struggling with financial difficulties are left without much stability or perspective. Thus, the new economic revival is more polarized: Those, who lose, won't have access to resources in the coming boom cycle either; while those, who win, will be the tokens of the next period of economic growth.

The cyclical nature of household lending shows us that this instrument is more at the service of economic interests than at those of residents. Housing loans are an important way for households to be able to buy properties, however, the conditions at which these loans are made available will always be subject to broader economic and corporate interests. As a result, the aim of securing access to stable and affordable housing can rarely be reached through individual household lending. It is important to note that more lending plays an important role in driving economic growth, thus the push for more market expansion and more money circulation tends to dominate over the societal interests of stable and affordable housing.

What to do?

In the short term, debt restructuring and debt cancellation mechanisms are necessary to reduce the social harm of over-indebtedness. This can take various forms, and can be targeted towards different social groups. The importance of the politics of debt restructuring is to open the possibility for questioning the legitimacy of the total outstanding stock of household debt, and to see it as a sphere of negotiation similar to the debt of companies or states.

In the mid and long term, however, debt cancellation and debt restructuring will not solve the fundamental problems of the lack of access to housing and other basic services. Thus, new solutions to households' needs have to be built up. Otherwise, under the capitalist logic, new waves of lending and then of over-indebtedness will merely continue to reproduce themselves. In the field of housing, we need to build stable, affordable housing systems which are not exposed to market volatility and are not reliant on individual lending. Important aspects of such housing programs would be:
• to be affordable in the long term,
• to have an institutional structure which avoids speculation,
• to be collectively or publicly owned and managed in a way to secure the predominance of residents' interests,
• to develop mechanisms of solidarity within housing systems, which would allow for more resilience to crisis.
In order to develop these solutions, the political pressure and collective voice of many indebted households need to be heard, and governments also need to take more responsibility in providing for the basic needs of their residents. Social movements organizing around access to housing or around household indebtedness have an important role to play in pushing for these steps.

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