

Critical Analysis on the Phenomenon of High Household Debt Caused by High Housing Price in China using Marx's Capital Cycle Theory

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Abstract: Chinese households have appeared the phenomenon of high debt ratio with the years continuous economic growth, especially the rapid rise of housing prices and the popularity of real estate mortgage loans in recent years. The main performance is the expansion of household debt scale, the transformation of household debt to housing loans and the excessive growth of household debt burden. This phenomenon seriously affects the healthy development of China's economy. The high debt caused by high housing price, unreasonable debt structure and debt crisis leads to the currency amount reduction and interruption of the capital cycle, thus affecting the healthy development of China's economy.

Keywords: Resident; High debt; Marx; Capital cycle

Preface:

Marx has pointed out that capital cycle means that industrial capital starts from a certain functional form and goes through three stages of purchase, production and sales successively. It adopts three functional forms of monetary capital, productive capital and commodity capital respectively, then realizes the appreciation of value and returns to the whole process of original starting point^[1]. The high debt ratio of Chinese residents shows the trend of continuous expansion of debt scale under the high housing price with the continuous growth of China's economy, especially the rapid rise of housing prices in recent years, the popularization of real estate mortgage loans and the convenience of stock market financing, the proportion of loan debt keeps rising, while the debt burden of household sector grows too fast. It is of great practical significance to study the phenomenon of high household debt caused by high housing price in China under Marx's capital circulation theory. This paper starts from Marx's capital cycle theory and draws the following research conclusions.

1. The crowding out effect of high debt caused by high housing price on consumption will reduce the currency amount in capital circulation.

1.1 High debt will restrain current consumption

Debt has an important impact on the current consumption, and the asset allocation structure will have an impact on consumption behavior for both indebted and non-indebted households. Households with a high proportion of non-current assets are forced to make precautionary savings due to the difficulty of liquidating their assets, hence they are more sensitive to temporary income shocks. As typical housing assets with low liquidity characteristics, it has the double attribute of consumer goods and investment goods. When residents use their homes to live in, they spend too much money on the purchase, and most households pay for it by taking out loans. However, as the amount of funds needed to purchase real estate is quite large, the amount of loans will be heavy, so households will increase the consumption of current housing assets to some extent by reducing the expenditure of working capital. After forming housing loan debt, it will have a psychological impact on households, making them have to reserve savings for the repayment of long-term housing mortgage loan in the future, so it will have a vital impact on household consumption decisions.

1.2 High debt will restrain residents' inter-temporal consumption

High debt will not only inhibit the current consumption, but also have a crucial impact on the inter-temporal consumption. Inter-temporal consumption is influenced by current disposable income, which is influenced by debt levels. The less debt, the more disposable income people will have today, the more inter-temporal consumption will be. Vice versa, so there will be less money floating in the capital cycle. Marx's theory of capital circulation provided guidance for solving this problem.

2. The unreasonable debt structure caused by high housing prices inhibits consumption and thus reduces the currency amount in the capital cycle.

2.1 Unreasonable price debt structure caused by high housing inhibits consumption

At present, the debt of Chinese residents is mainly changed to housing loan, and most of the housing loan debt is long-term loan. The shorter the loan term, the more households consume will be. The term structure of household loans is inversely proportional to consumption. The longer the loan term is, the smaller the household consumption will be, which explains that housing loans have less stimulating effect on household consumption compared with short-term consumer loans to some extent. Zhou DanTong (2013) made use of the micro-data of China's urban household survey from 2002 to 2009 to draw the conclusion that housing loan has a significant negative impact on housing consumption, while wealth constraint is an essential factor that inhibits families' choice of self-owned housing^[2].

2.2 Unreasonable debt structure caused by high housing price leads to more social wealth being fixed in real estate.

The increase in the share of housing loans has led to more working capital being fixed, with the value pinned to property. This makes the proportion of fixed capital increase in the composition of productive capital. Because the circulation speed of fixed capital is slower than that of circulating capital, it can create less surplus value in the same time, which is not conducive to the development of social economy. High long-term resident debt ratio will seriously affect the healthy development of China's economy.

According to relevant statistics, household loans are mainly consumer loans, accounting for about 2/3 of the total household debt, about twice that of business debt. While in the consumer loans, the housing loan - based medium - and long-term loans account for the majority^[3]. Commercial housing has literally become the largest negative asset of many urban residents, which makes most of the assets fixed in the real estate. It is natural to not participate in the appreciation of capital without circulation, which is ultimately not conducive to the development of economic society. Therefore, it is necessary to research Marx's capital cycle theory for solving this problem.

3. The debt crisis caused by high housing prices will lead to the interruption of capital cycle.

3.1 The debt crisis caused by excessive household debt will lead to the interruption of industrial capital cycle

In the case of high household debt in China, the household sector debt burden is too heavy and grows too fast, which is easy to cause debt crisis. Residents cannot repay the principal and interest of their debts on schedule, which will lead to the failure of the transformation on monetary capital into productive capital, and the failure of the two to carry on in time, resulting in the failure of reproduction. Then capital can not realize normal circulation and value appreciation, which has an important impact on the real economy sector. Marxist capital cycle theory points out that capital must be recycled to achieve appreciation, and capital must pass through three stages of the cycle successively, namely, monetary capital should be transformed into production capital, then into commodity capital, and finally back to the form of monetary capital. If one of these phases is interrupted, the capital cycle cannot proceed smoothly, so that it will not be interrupted. After having debt crisis, there is the interruption of capital cycle without appreciation, which is not conducive to the healthy development of China's economy. Therefore, Marx's capital cycle theory plays an important role in researching debt crisis caused by high housing prices.

3.2 The debt crisis caused by excessive household debt can lead to a financial crisis

Excessive expansion of household debt may increase the debt burden in the medium to long term, promote systemic financial risks and ultimately restrain economic growth. The financial market is characterized by vulnerability, which is greatly affected by objective factors and the large amount of loans on Chinese residents to financial institutions, leading to debt crisis. After a debt crisis occurs, the banking system will also face a crisis, or even collapse, as residents are unable to repay the loans, bringing with the crisis in all sectors of society. In this case, household debts will not only interrupt the capital cycle, but also cause social crisis and destruction.

Conclusion

After having in-depth study of Marx's capital cycle theory, it is not difficult to find that the phenomenon of high household debt caused by high housing prices in China has a negative impact on social and economic development, so the government should restrain housing prices in order to achieve healthy and stable economic development. In this way, both social and economic development will be healthier, and people's lives will become better. Marx's capital cycle theory plays an important role not only in theory, but also in reality, which is worth intensive study.

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