



**Economic Policy Changes and Their Effects on
the Urban Housing Situation: the Case of China
(1948 - 1997)**

A Thesis Submitted for the Degree of Doctor of Philosophy

By

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Table of Contents

Contents of Chapters	i
List of Tables	viii
List of Figures	ix
Abbreviations	xi
Abstract	xii
Research Declaration	xiv
Acknowledgments	xv
Chapter 1 Introduction	1
1.1 Topic and research aim	1
1.2 Background to the topic	4
1.2.1 Housing policy changes and housing crisis (1948-1978)	5
1.2.2 Housing system reform (1978-1997)	6
1.3 Main issues discussed in the research	8
1.3.1 The ideology of housing supply and demand in socialist countries	9
1.3.2 The economic development strategy and the housing shortage in socialist countries	10
1.3.3 The administrative allocation system and urban inequalities of housing distribution	12

1.3.4 The evolution of China's housing system reform	12
1.3.5 Further housing system reform based on a market-oriented economy	13
1.3.6 The trend of the government role in the housing market in China	14
1.4 Data and concept problems	15
1.4.1 Building space, usage space and living space	15
1.4.2 The effect on the changed definition of urban areas	16
1.4.3 Slum, squatting and China's definition	16
1.5 Structure of the thesis and methodologies	18
Chapter 2 Two housing models: government intervention in housing and government housing control	22
2.1 Introduction	22
2.2 The theoretical basis for government intervention in housing in a market economy	24
2.2.1 Reasons for government intervention in housing markets	24
2.2.2 The aims of government intervention in housing markets	26
2.2.3 The strategies for government intervention and relevant housing policies	30
2.2.4 Summary	36
2.3 Government housing control in a planned economy	37
2.3.1 Reasons for government housing control in socialist countries	37
2.3.2 The goals of government housing control in a centrally planned economy	40

2.3.3 The strategy for government housing control	40
2.3.4 Housing problems under government housing control	46
2.4 The difference between government housing control in socialist economies and government intervention in market economies	49
2.5 Conclusion	53
Chapter 3 Formation of low-rent system and process of urban housing nationalisation	54
3.1 Introduction	54
3.2 The low-rent system and the housing crisis 1948-1978	56
3.2.1 Housing tenure relationships in the urban housing market (1948-1954)	56
3.2.2 Emerging low-rent and low-wage system (1955-1957)	60
3.2.3 The low-rent system and policy of 'using rents to build housing and home' (1958-1965)	64
3.2.4 The nominal rent system (1966-1978)	69
3.3 Nationalisation of urban private housing 1948-1978	71
3.3.1 Confiscation and limitation of urban private housing (1948-1954)	71
3.3.2 Socialist transformation of urban private housing (1956-1965)	73
3.3.3 Nationalisation of urban private housing (1966-1978)	79
3.4 Conclusion	82

Chapter 4 Determinants of urban housing shortages in China	85
4.1 Introduction	85
4.2 Economic policies and absolute housing shortage	86
4.2.1 The ideology of economic development and consumption	87
4.2.2 The shortage of investment in urban housing	90
- the strategy of industrialisation	
4.3 The urban population and absolute housing shortage	96
4.3.1 The growth rate of urban population and the urban housing situation	96
4.3.2 Urbanisation and growth rate of urban population in Chinese feature	100
4.4. The administrative distribution system and relative housing shortage	108
4.4.1 The distribution of public housing and the type of	110
urban public housing	
4.4.2 Inequalities of housing distribution	113
4.5 Conclusion	119
Chapter 5 Evaluation of the Chinese housing system reform	121
5.1 Introduction	121
5.2 The formation of the basic approach to urban housing reform	122

5.3 Investment system reform - decentralisation of housing investment allocation	124
5.4 Sale of urban public housing -establishing an urban housing market	129
5.5 Low rent system reform - experiments in some cities from 1986	134
5.5.1 Housing subsidy increase - a big burden on the government budget	135
5.5.2 Solving the urban housing problem - the impact of the first national survey of the urban residents' living standards	137
5.5.3 Achieving a moderate level (<i>Xiaokang shuiping</i>) in housing by the year 2000	138
5.5.4 Trials of the low rent system reform in four cities after 1986	140
5.5.5 Further trials of the housing system reform across the country	143
5.6 Turning point: housing system reform in the whole country	145
5.6.1 The Shanghai Scheme	149
5.6.2 The Beijing Scheme	150
5.7 The impact of urban housing reform (1980-1997)	153
5.7.1 Multiple channels for housing investment and the housing situation	153
5.7.2 Commercialising urban housing and housing markets	156
5.7.3 Increasing tenant's contribution to public housing - low rent system reform	159
5.8 Conclusion	161

Chapter 6 Key issues in establishing a new housing system based on a market-oriented economy	164
6.1 Introduction	164
6.2 Setting up rational housing prices based on the residents' capacity to pay	165
6.2.1 The capacity of households to afford housing - housing price to income ratio in China	166
6.2.2 The ratio of housing price to rent in an internal housing market - low rent reform	173
6.2.3 Double gaps in the housing market - a theoretical analysis	178
6.3 Clarification of property right in urban housing ownership	181
6.3.1 Property right in a market economy	183
6.3.2 Property rights over urban public housing in China	185
6.3.3 The implications of clarifying property rights over housing for the reform	187
6.4 Establishing an independent housing management system	191
6.4.1 <i>Danwei</i> (work unit)-owned housing property - historical outcome	192
6.4.2 Issues caused by the present housing management system	192
6.4.3 Establishing a market-oriented housing management system	195
6.5 Promoting the development of a housing finance system	198
6.5.1 Limited ranges of housing financial system reform to date	199
6.5.2 Establishing an efficient housing financing system	202
6.6 Conclusion	204

Chapter 7 Government role in urban housing during and after housing system reform in China	207
7.1 Introduction	207
7.2 The rationale for government intervention in urban housing in China	209
7.2.1 The basic theory of the role of government intervention	210
7.2.2 Market failure in the housing market	211
7.2.3 The government's role in urban housing in China	214
7.3 Government intervention in housing - the 'Anju Project'	217
7.3.1 Economic development and housing problems present and future	217
7.3.2 The strategies and policies for urban housing based on the 'Anju Project'	220
7.3.3 Evaluation of the 'Anju Project'	226
7.4 Conclusion	229
Chapter 8 Conclusion	231
8.1 Conclusion and major findings	231
8.2 Policy implications of urban housing drawn from the Chinese experience	241
References	244

List of Tables

3-1 Break-even rent and present rent in selected cities in 1958	68
3-2 Living space and population in 30 large cities in China 1984	70
3-3 Proportion of urban housing ownership in ten cities 1955	74
3-4 Tianjin urban housing ownership 1950-1985	80
3-5 Structure of urban housing ownership in China 1985	82
4-1 Housing investment and capital construction investment 1950-1978	93
4-2 National and urban population 1949-1978	98
4-3 Migratory flows generated by rustication of urban youth 1962-1979	104
4-4 Number of official designated urban places	106
5-1 Housing investment as a percentage of GDP: prior to and after the start of the reform	128
5-2 Size of China's urban housing subsidies 1978-1988	136
5-3 Housing situation of national urban residents 1985-1986	139
5-4 Structure of housing investment in urban areas (selected periods)	155
6-1 Average housing price to household income ratio in urban areas in all provinces of China in 1994	169
6-2 Price composition of commercial housing in Beijing	170
6-3 The composition of housing buyers in Tianjin in 1994	172
7-1 National investment plan and loan for trials of 'Anju Project' in 58 cities and one institute 1995	223
8-1 A brief chronology of China's housing system reform	243

List of Figures

3-1 Rent level in urban housing under public ownership under the low rent policy (1956)	64
3-2 Proportion of urban housing ownership in Xi'an 1949-1985	81
3-3 Formation of government housing control in China	83
4-1 Accumulation rate in China 1952-1981	88
4-2 The impact of housing supply in a free market	91
4-3 An increase in demand with fixed supply	92
4-4 Investment in urban housing as a proportion of total capital construction investment 1950-1978	94
4-5 Urban living space per capita (selected years) 1949-1982	95
4-6 Proportion of population increase in national and urban level 1949-1989	99
4-7 The trend of urban population in annual natural growth, net migration and urbanisation level 1950-1976	107
4-8 Inequality of the housing distribution caused by privilege, nepotism and corruption	117
5-1 Urban housing investment in capital construction 1950 - 1989	129
5-2 Trial cities of selling public housing in China in 1982	132
5-3 Trial cities for rent system reform in China 1986-1988	141
5-4 Living space per capita in urban areas 1978-1994	154
5-5 Expenditure and rent proportion as a proportion of expenditures for per urban resident (selected years)	160
6-1 Ordinary housing sale in opening market in Tianjin 1987-1994	172

6-2 The two gaps of supply and demand for housing in China	180
6-3 Authorities concerned in a housing project in Tianjin in 1996	195
6-4 The structure of housing production and consumption based on a market-oriented economy	197

Abbreviations Used in Text and Notes

CASS	Chinese Academy of Social Science
CCPCC	Central Committee of Chinese Communist Party
CCP	Chinese Communist Party
CHCDC	China Housing Construction and Development Corporation
CPEs	Centrally Planned Economies
FYP	Five-Year Plan
GDP	Gross domestic product
GNP	Gross national product
IFTE and IPA	Institute of Finance and Trade Economics of the Chinese Academy of Social Sciences and Institute of Public Administration
PIR	Price to income ratio
PRC	People's Republic of China
XHS	Xinhuashe, Xinhua News Agency

Abstract

This thesis investigates economic policy changes and their effects on the urban housing situation in China both under the centrally planned economy and during the period of urban housing system reforms since 1978.

It considers two main housing models: government intervention in urban housing based on a market economy, and government housing control under a centrally planned economy. It takes China as a case to discuss transition issues from the centrally planned housing system to the market-oriented one.

During the plan period, China ignored the role of a housing market and adopted government housing control based on a low-rent system and urban housing nationalisation. As the result, there were serious housing shortages in urban areas. This housing situation was caused by shortages of investment in urban housing in order to achieve the rapid realisation of industrialisation, the high growth rate of the urban population, and the administrative distribution system, which resulted in inequalities of urban housing distribution.

Since China began its urban housing system reform, in terms of urban housing availability, living space per capita is now more than double what it was before the reform, and living conditions have improved. But in terms of establishing a new urban housing system based on a market-oriented economy, the reform has not achieved its stated aims. First, the proportion of housing investment by central or local governments and work units still amounts to 80 percent of the total of urban housing investment. Second, due to dual-track housing prices, two housing markets exist: an "internal housing market" and an "open housing market". The former still follows the old welfare system. The latter is limited to a very narrow range. Third, rent reform has not

stimulated individual investment in housing and the rent for public housing is still subsidised by the government and by work units.

Considering the experience of the housing systems in market economies and China's present situation, key issues for the further reform are setting rational housing prices, clarifying and legislating for property rights, establishing efficient housing finance and creating independent and socialised housing management companies. In the meantime, due to housing market failure and the existence of low-income families, government intervention in urban housing markets becomes necessary. During and after housing system reforms the Chinese government must play a role in urban housing markets using policies based on market-oriented economies.

RESEARCH DECLARATION

I declare that this thesis contains no material which has been submitted for a degree or diploma at any university and to the best of my knowledge it does not contain any materials previously published and written by another person, except where due reference has been made in the text.

I give consent to this copy of my thesis, when deposited in the University Library, being available for loan and photocopy.

Shiming Yuan

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Chapter 1 Introduction

1.1 Topic and research aim

The housing problem has many dimensions. It can refer to housing shortages and issues of housing quality, affordability, and housing distribution. Housing shortages can be defined as a shortfall of housing units to a number of households, but this takes no account of size, location, quality, amenities or age of the house, or the characteristics, size and composition of households (Stafford 1978, p. 46). Grigsby and Rosenberg consider 12 dimensions of the housing problems: lack of adequate housing space, quality, and furnishings; poor neighbourhood environment; excessive housing costs relative to family income; lack of security of occupancy; restrictions upon choice of tenure; restricted location choice; lack of special housing services for the physically handicapped; racial discrimination; excessive housing cost relative to quality and quantity of space received; and the stigma attached to receiving housing assistance (1975, p. 31).

Many scholars have stated that there are housing problems in both developed and developing countries. Kemeny argues that “Housing research has traditionally been concerned with measuring the extent of housing shortages and specifying its dimensions, for example in terms of overcrowding, poor sanitation, and a shortfall of dwellings in relation to households” (1992, p. 15). Askerooth stated: “Nearly everyone agrees that we have ‘a housing problem’ in America. Many would also agree that inadequate housing for the poor is the most serious dimension of that problem”(1976, p.

218). Many scholars have shown that even though average income is high in some big cities such as New York, Tokyo, and London in developed countries (Angel, 1992; Anderson, 1993), and Shanghai, Calcutta, and Manila in developing countries, there are still housing shortages for the residents (Conroy, 1987; Ball, Harloe and Martens, 1988, and Cernea and von-Einsiedel, 1989). The housing problem is thus one which relates to both the provision and the distribution of housing. It involves complex aspects of economic structure, systems of ownership and patterns of social behaviour. The housing problem is even more urgent in China, especially with a total population of over one billion.

Urban housing systems, in general, are determined by several factors: the level of national economic development, political and economic policies concerning investment in housing construction, the growth rate of the urban population, the size of the cities and, finally, individual tastes and preferences.

In socialist countries planned economic systems and central government policies play a major role in determining the housing situation. Even though economic system reform and housing system reforms have been carried out in the past, in Eastern Europe, and now in China, governments have not yet been able properly to solve housing problems associated with housing shortage and inequalities in urban housing distribution.

The issue of the Chinese housing situation in recent years,, especially the housing system reform, has begun to attract the attention of many researchers. However, as yet there is no integrated study of the economic and political sources of the problem and of the impact of the reform process.

This thesis aims to fill this neglected area. My focus is the shortage of housing in China. The purpose of this study is to identify the effects of economic policy change on China's housing shortage. I will explore why there was a housing crisis in cities under the

centrally planned economic system before the reforms began (1955-1978), and why there is still a housing shortage in urban areas 18 years after the beginning of housing system reform (1980-1998). This research will include a comparison of the differences between government housing control and government intervention in a housing market. As housing system reform involves national economic system reform, the relationship between the housing sector and other industries during the period of centrally planned economy will also be investigated, and then the implementation of China's housing system reform up to the present day will be evaluated. Key issues in establishing a new housing system and government roles in the urban housing sector after the housing system reform will be explored.

The contribution of my research to the existing work is twofold. First, it will explain how economic policies affect the urban housing system in a planned economy, and how a new housing system based on a market oriented economy can be established. Second, it will provide a basic theoretical model and an empirical analysis for those who want to study and to understand China's housing situation.

This thesis focuses my attention on analysing the economic determinants of the urban housing situation in China. I do not include other factors such as topography, climate and so forth, which may affect the housing situation in different areas. Furthermore, I have excluded the rural housing problem from my research. The government only implemented the low-wage and low-rent system in respect of urban housing consumption. As such, the rural peasants did not receive any government housing subsidies through the planned economic system. They provide and own their own housing. The housing reform policies thus do not affect rural housing provision. Housing system reform is only concerned with the urban population, not the rural.

There are two reasons for not focusing on the issue of the rural to urban migration. Firstly, due to statistical limitations, it is impossible to find the accurate number of rural

to urban migrants each year. Secondly, new housing policies for the implementation of the urban housing reform are not concerned with those residents without *chengshi hukou* (registered permanent urban residence). The urban housing situation would be much worse if we considered the rural to urban migrants as part of the total of urban population. The full extent of urban housing problems are thus even worse than indicated by the data presented in the thesis. The issue will however only be noted in this research. Apart from data problems, it is not given detailed attention because the focus is on the housing system transition rather than on the effects of the rural to urban migrants on urban economies. However, when the issue of establishing a housing market based on a market economy is discussed, the right of the rural to urban migrants to rent or buy urban housing is considered.

The following sections will introduce some of the major analytical perspectives and empirical issues, which are explored in this thesis.

1.2 Background to the topic

This section provides an overview of the whole process of housing development in China from 1949 to 1997 in order to present the empirical basis for the outline of the research plan in the following sections. Basically, we can divide this whole period into two parts. The first stage, 1949-1978, was the period of the national economic recovery and the centrally planned economic system. The second stage, 1979-1997, was the period of economic transition and housing system reform. During each stage, there were different phases with different characteristics.

1.2.1 Housing policy changes and housing crisis (1948-1978)

After the People's Republic of China was founded in 1949, the housing situation was closely aligned with national economic development policies. At the beginning of Chinese Communist Party rule, there was still private ownership and renting in the housing market, and the rent was enough to make up the cost of housing. The government allowed individuals to let their housing to other people. In addition, the government promulgated some documents concerning how to set the rent level of public housing according to the housing market value (Chengshi Fuwu Bu [National Urban Service Department] 1958 cited in Fangchan Tongxunshe [Real Estate News Agency], 1982, p. 1). During this period (1949-1954), the housing market was in equilibrium (Qi Zhaozhen 1983).

After finishing the task of national economic recovery, the Chinese government adopted centralised policies for socialist construction. Kirkby explains this as follows: "Its strategic prescription for the cities was to transform them from slothful, corrupt centres of consumption (*xiaofei chengshi*) to purposeful socialist 'producer cities' (*shengchan chengshi*)" (1988, p. 227). As a result, majority of resources were concentrated on the construction of factories and office buildings. Meanwhile, in August 1955, the government issued a document, titled "The Order to carry out the Wage System and to adopt the Currency System for all Personnel of Organs of State" (the so-called "the eight-grade wage system") (The State Council, 1955 cited in Fangchan Tongxunshe [Real Estate News Agency], 1982, pp. 145-148). In this order the government stipulated the combination of low wages and low rent. After the document was announced, all large cities competed with each other to reduce rents, and local governments gave subsidies to officers working in administration and management. At this time, due to the high rate of capital accumulation, low housing investment, and the low-wage and low-rent system, the central government began to control rent levels and local governments

set up agencies to control public housing. The role of the market was weakened, and an imbalance between housing supply and demand appeared.

During the period 1956 -1966 four developments were important. First, after the low-wage and low-rent system was introduced, there tended to be a shortage of housing (Qi Zhaozhen, 1983). Second, according to this policy document local governments adopted a strict residential registration system to restrict non - residents from renting housing in cities. Third, during the period of the Great Leap Forward, the amount of demolished housing appeared to be quite significant. In some cities the proportion of demolished housing amounted to 20 percent of the total housing stock, but no capital was available for housing reconstruction (Ma and Hanten, 1982, p. 230). Fourth, in this period the government nationalised most urban private housing in order to increase the rate of the public housing supply and to carry out comprehensive housing control.

During the period of the Cultural Revolution all policies were taken to the extreme. The government propagated "first production, then livelihood" (*xian shengchan, hou shenghuo*). There was little money for the maintenance of municipal infrastructure. Little capital was directly invested in housing maintenance or construction. By 1976 the average living space per capita in all cities was 3.5 square metres. This figure was lower than the 4.5 square metres of 1951, 25 years before. There was a serious housing crisis.

1.2.2. Housing system reform (1978-1997)

After the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party in 1978, China began to emphasise large-scale economic reform. One of the most important features was the reform of the old housing system in order to solve the housing crisis. The Chinese government changed its policies towards national investment allocation. For example, in 1979 housing investment made up 14.8 percent

of the total basic construction investment, over 5 times more than housing investment in 1970.

In 1982, the central government started to put a formal scheme for selling houses into practice as the first step of the housing system reform (Kirby 1988, p. 237). Four cities were selected, trying to sell public housing to individuals with government or enterprise subsidies. As the first step of the reform, a document was formulated by the Leading Group on Housing Reform under the jurisdiction of the State Council. In this document the aims of these reforms were as follows:

- a) To shift the housing system from a welfare basis to a commercial one;
- b) To combine the "enthusiasm" of the state and collectives with that of individuals in order to solve the housing problem;
- c) To use different methods to suit different localities in implementing housing reform including rental increases and house sales (Pola, 1992 p.12).

Although the reform of China's housing system was put forward as early as 1980, there was no basic change for most urban dwellers in the low-wage and low-rent system until 1986. Rents remained more or less at the same level, though personal income increased. After 1986, trials of reforms to the low rent system were promoted in four cities by the central government. The aims of these reforms were:

- a) There would be an end to the allocation of enterprise and local government resources to housing construction.
- b) The reforms would allow for a complete restructuring of the flow of funds through the housing sector, both for the maintenance of the existing housing stock and for new construction.
- c) The reforms would imply a transformation of the housing production system with the development on an independent, consumer-oriented housing industry.

d) Home ownership programs, though strongly encouraged, would not benefit from large up-front subsidies. Subsidised sales would be banned.

(The World Bank Report, 1992, p. 27).

Because of the variations in methods used in rent reform in different places, the results were very diverse. In 1991, after four-year experiments in four cities, the formal process of rent reform started. The central government empowered the local governments to plan their own schemes. The central government only provided a certain amount of subsidy to support local housing rent reform. Local governments could decide the speed or stage of the reform depending on their local financial situation.

One survey claims that in 1994 over 4 million households still had various housing problems in urban areas (Wu Weiyu 1995 and Zhao Gouliang and Wu Shaohua 1996). In the following year, the government introduced the "anju gongcheng" (economic and comfortable housing project) to overcome the existing housing shortages as part of the task of urban housing system reform (National Construction Department 1995, p. 4).

So far the housing system reform has been carried out for 18 years. Have the expected aims of the housing reform been attained? How do local policies for the rent reform affect the housing situation? Has the rent reform promoted housing commercialisation? All these issues will be considered in this study.

1.3 Main Issues discussed in the research

In studying housing reform issues in China, a number of major questions have to be addressed. In the following sections, therefore, I shall examine the five main issues analysed in this thesis and point out the implications of the existing literature for the present study.

1.3.1 The ideology of housing supply and demand in socialist countries

Due to the importance of the housing situation for the people's standard of living, most governments take action to regulate the domestic housing situation. However, different economic systems have distinct housing policies which play differing roles. We can divide housing systems into two categories, of which one is the government housing control system in centrally planned economies. The second is government housing intervention in market economies. McGuire explained: "At one extreme are the centrally planned economies of the socialist countries, who view housing as a social right and hence assume responsibility for the provision of housing. At the other are the market economies, in which the individual bears the responsibility for housing himself." (1981, p. 3).

In the centrally planned economy, governments regard housing as a consumption good. They adopt the duty to offset most of the housing cost and to provide housing for every family. They use administrative methods to distribute urban housing. In market economies housing is regarded as an individual responsibility. Housing consumers have to pay the cost of the houses where they reside. Governments are only concerned about or intervene on behalf of poor or lower-income families. In respect of China, the question is whether the above ideology of housing supply was realised under the centrally planned economic system. Empirical evidence suggests that in the centrally planned economies, governments did not achieve in actual practice what they promised in theory.

1.3.2 The economic development strategy and the housing shortage in socialist countries

What factors caused housing shortages in socialist countries? Most socialist countries following the Soviet model have adopted the centrally planned economic system.. In these countries economic planning replaces the market mechanism (Ball, Harloe and Martens 1988). After the Second World War these countries sped up capital accumulation in order to achieve industrialisation and urbanisation. Most of the national income was distributed to heavy industries. Governments allocated and transferred the majority of resources to the productive sector. Therefore, the growth rate of capital accumulation surpassed the rate of increase of the people's living standards . In the meantime, when budgetary shortages in these countries occurred, governments first reduced expenditure on sectors such as housing construction (McGuire, 1981; Turner, Hegedus and Tosics, 1992).

In the Soviet Union, for example, although housing was regarded as an essential right for all Soviet citizens, the housing stock deteriorated for many years. From the Bolshevik revolution to the end of the Second World War, few houses were built. During this period under Leninism, the government emphasised the industrial structure of the national economy and tried to gain a great achievement in its agriculture. Housing construction was not a priority sector, and few houses were built for the whole first half of the twentieth century. "Thus after the war (the Second World War) the USSR faced a tremendous need for rebuilding, caused not only by the war damage but also by the accumulated neglect of the housing sector for the first half of the century." (McGuire 1981, p. 204) His conclusion seems to be that the socialist economic policies in the Soviet Union caused the housing shortage.

As Szelenyi shows in his book, the same housing situation also occurred in Eastern Europe. He points out: "That surprising decline in construction (in housing

construction) was a deliberate part of economic policy.” He argues that at that time, dispensing construction materials to housing seemed to those policy-makers, to be "like eating the original egg before it had produced the magic goose that would sometime hatch the golden eggs"(1983, p. 30). Due to the stress placed on the rapid growth of heavy industry in socialist economic systems, governments ignored the improvement of people’s living standards. This included ignoring housing.

During the period of 1955-1976, before the economic reform in China, the productive investment for capital construction accounted for over 80 percent of the total investment each year. But the government invested very little money to build and maintain housing. During this period, the capital for state-ownership housing construction made up an average of less than 6 percent of total annual investment. Due to the high rate of capital accumulation and less investment in housing construction, total housing demand greatly exceeded total housing supply. This is the basic source of the housing shortage problem in China (Cao Zhenling, Hao Shouyi and Yuan Shiming 1992)

In the above view, housing supply was insufficient due to under-investment in building housing. In the meantime, governments implemented a low-rent system. The rent only accounted for one third of housing construction cost. There was not enough expenditure on housing construction, which caused an insufficient supply of housing. So, the gap between the supply of and demand for housing in socialist countries resulted in disequilibrium in the housing market. These governments had to disburse heavy subsidies to maintain the existing housing and to build a few new houses. The policies for development under socialist systems thus determined the housing situation and resulted in a housing shortage.

1.3.3 The administrative allocation system and urban inequalities in housing distribution

Under the economic development strategy and the condition of housing shortage in socialist countries, the administrative method of housing distribution caused another social economic problem—inequalities in urban housing distribution.

Some scholars claim that under the centrally planned economy, inequalities in administrative allocation became inevitable when the wages were set officially to exclude the cost of housing and other public goods and services. Housing and other goods and services then had to be allocated to all comers. However, the administrative allocation system played an important role in housing distribution. This system generated urban inequalities in housing distribution, because housing was allocated according to the ranks of city people. The higher your rank, the more space and better housing you obtained. (Szelenyi, 1983 and Zhang Wenxian, 1991). So administrative allocation was another major aspect of policy effects on the housing situation in socialist countries. Inequitable distribution also caused a relative housing shortage. The many kinds of urban inequalities of housing investment and housing distribution have thus influenced the present housing situation in China.

1.3.4 Studying the evolution of China's housing system reform

Evaluating the outcome of China's housing system reform is an important aspect of this thesis. Housing system reform is not as simple as increasing rent or selling all housing stock to individuals. Renaud argues "Housing reforms are integral parts of macro economic stabilisation and structural change. They cannot proceed autonomously and must be synchronised with reform in other parts on the economy" (1991, p. 29).

So far some scholars have raised objections to the current economic policies for housing reform arguing that the policies are premature and cannot achieve the goals (Lü Fuxin 1993). Lim and Lee raised the same question and stated their view as follows: "Based on our analysis, we found that rent reform alone cannot successfully improve the Chinese housing situation"(1993, p. 89).

Therefore, we have to make some evaluation of the present housing reform. What is the achievement of this reform? Does the new housing system work very well? Are new housing policies suitable to build up a housing market, to realise the goal of housing commercialisation, to cure the housing shortage, to increase the social funds for housing construction and to achieve equilibrium between housing supply and demand? Reforming the housing system also depends on the whole economic system reform and national economic adjustment, such as resource reallocation, wage system reform and price stability.

1.3.5 Further housing system reform based on a market oriented economy

China started its urban housing system reform in 1980. The aim was to set up a housing market through the commercialisation and privatisation of urban housing. After 18 years of reform, what has happened?

Firstly, the proportion of housing investment by central or local governments and work units still amounts to 80 percent of the total of urban housing investment (IFTE and IPA 1996 p. 208). Secondly, two housing markets co-exist. One is the "internal housing market" within work units, in which demand for housing exceeds supply. The other is the "open housing market", in which supply exceeds demand (Zhu Jian 1996, p. 10; Wang Wenbin 1996, p. 34; and The Leading Group of Housing System Reform under the Jurisdiction of the State Council, 1994, p. 56). Thirdly, rent reform has not

stimulated individual investment in housing, and the proportion of rent per capita to annual income has experienced little change.

Therefore, I argue that although living space per capita is now more than double what it was before the reform, in terms of establishing a new urban housing system based on a market oriented economy, the reform has not achieved its stated aims. The key issues of establishing a housing market based on a market economy should be clarified further.

1.3.6 The trend of the government role in the housing market in China

Empirical evidence shows that government housing control under the planned economy didn't work well and produced a lot of problems in housing supply and demand. In order to transform government rent control into a market rent system, some scholars have suggested giving up government intervention, raising rents to market levels, realising commercialisation of housing and setting up a free housing market to solve the housing shortage and unequal housing distribution (Zhang Wenxian 1991 and; Chen Xiangming and Gao Xiaoyuan 1993). The question is whether the new housing system needs government intervention.

Unfortunately, so far, few researchers have done any comprehensive and systematic research on the differences between government intervention in housing in a market economy and government housing control in a planned economy. Therefore, it is easy to come to the conclusion that government housing control should be removed when a simple comparison of the two kinds of economic systems is made. In fact, a perfectly competitive housing market does not exist, except in theory. Nearly all governments take action in housing markets. Reforming the government housing control system doesn't mean that the government should not play a role in the housing market. The reasons for government involvement in housing are many and complex, but there are some common aims:

- to remedy a housing shortage;
- to help the poor;
- to alleviate the burden of low-income families;
- to stabilise housing production; and
- to improve general housing conditions.

Shidlo explains the selection of present housing policy instruments by governments as follows: "two strategies can be broadly labelled 'supply side' and 'demand-side' strategies. That is, policy-makers can opt for subsidies either to builders or to consumers -- or for a combination of both" (1990, p. 1). Therefore, during the transitional period from government housing control to government housing intervention and the establishment of a housing market, a lot of new issues need to be investigated. These include clarifying the features of the different government housing policy strategies in a market economy and in a planned economy, building up the new policy framework, and evaluating future government roles after housing system reforms.

In the next section I will identify some issues to be enhanced in the empirical work on these issues. The structure of the thesis will then be outlined.

1.4 Data and concept problems

1.4.1 Building space, usage space and living space

China uses three systems to define housing space: building space, usage space and living space. These concepts are very different when used to describe the people's housing situation. *Building space* means the area measured from the outside of the building, that is the area covered by the building. *Usage space* includes the stairs, the corridor, the bedrooms, the drawing room, the kitchen space, the toilet and closets and the like. *Living space* means the area of the sleeping rooms (Kang Tianjin and Wang

Meixian, 1988, p. 79 and Kojima, 1987, p.35). In China a lot of houses do not have drawing rooms, closets and other usage spaces, and households have to share a kitchen and toilet. Rental systems are based on usage space, but the living space is the measure used in *China's Statistical Yearbook* to define per capita housing. But these concepts are confused in some analyses.

The living space per capita in China is calculated according to the registered population in the city, but a lot of non-urban people are working or living in cities, especially in large or coastal cities. So the real living space per capita is lower than that published.

1.4.2 The effect of the changed definition of urban areas

Since 1949 China has changed the definition of the urban area 3 times: in 1955, 1963 and 1984. How did the changed definition of the urban areas affect the living space per capita? Due to more living space per capita in rural areas compared with urban residents', each time urban areas are enlarged after the change of urban area definition, the living space per capita for urban residents increased suddenly in the *China Statistical Yearbook*. Therefore, when we investigate living space per capita in the year when the definition of urban areas are changed, this effect has to be considered.

1.4.3 Slum and squatter settlements

Slums and squatter settlements are often elements of housing problems in most countries. The presence of slums and squatter settlements in a society is a clear indication of the failure of a society and government to provide adequate habitat for their residents. The World Bank states that "the term 'slum' is used to indicate housing which falls below a certain level which is necessary to contribute to human development. The term 'squatter settlements' is used to indicate housing that is either the

result of illegal occupation or has been developed in an unauthorised fashion" (1992, p. 16).

Slums and squatter settlements are often difficult to separate. However, slums generally are considered as housing, regardless of tenure, which has fallen into disrepair and that it constitutes a general condition for a neighbourhood or community. A squatter area could also be a slum. Generally such areas are in the older central parts of cities. The main characteristic of squatter housing is the lack of formal ownership of the land on which the squatters live. The uncertainty of their tenure situation creates problems for capital improvement in the physical structures and social commitment to the larger neighbourhood and community. But even where the government is willing to assign land, additional problems of site improvement charges, bureaucratic breakdown, and political corruption may keep people from getting adequate housing (Aldrich and Sandhu 1995, pp. 26-28).

The Chinese government has never used international standards and concepts to describe its urban housing situation. Therefore, when we analyse China's housing shortages, it is difficult to define how many slums and squats there are in urban areas. According to surveys and official documents, we can find words such as "housing shortages" and "problems" instead of "slums and squatters". Housing problems are divided into three categories. The first is no housing for living, including no housing after marriage, living in non - residential housing, living in simply - built housing and living in relatives' housing. The second is sharing housing, including three generations in a room, parents with grown up children in a room, grown - up brother and sister in a room and two households in a room. The third is overcrowding in households, including under two square metres per capita (the most difficult households) and two - four square metres per capita (more difficult households) (Ministry of Urban and Rural Construction and Environment Protection, and the State Statistical Bureau, 1987, p. 26).

These Chinese concepts have meanings similar to slums or squat settlements. For example, living in simply - built housing and under two square metres per capita has the same meaning as slums; living in non - residential housing is the same as the squatting. For convenience, in this research, we still adopt Chinese concepts in order to examine its housing issues accurately.

1.5 Structure of the thesis and methodologies

The above discussion has provided the background to this thesis and the main issues addressed in the research. This section concludes by presenting the structure which will be adopted in the body of the thesis.

Chapter 2 aims to set up two housing models. The differences between government intervention in housing in the market economy and government housing control in the planned economy will be analysed. The methodology adopted is that of comparative analysis. Comparisons of the two housing models are made in the following aspects: a) the rationale for governments taking action in the housing market in the two economic systems; b) the difference in the concept of government intervention in the housing market and that of government housing control; and c) the different aims and strategies or policies in housing sectors in different economic systems.

Based on this comparative study, the reasons why under centrally planned economies government housing control resulted in a housing shortage will be explored, and the benefits of government intervention in housing in market economies will be explained. The argument will be made that in order to solve the housing problem in China, a transition from government housing control to government intervention in housing is necessary.

In Chapter 3, historical analysis will be utilised to investigate housing control in China. There are two aspects to the present system of housing control in China: one is the formation of the low-rent and low-wage system; the other is the process of urban housing nationalisation. The evolution of housing control in China covers a period of thirty years.

For the formation of the low-rent system we can divide the whole period of 1948-1978 into four stages: a) Housing tenure relations (1948-1954); b) Emerging low-rent and low-wage system (1955-1957); c) Low-rent and break-even rent (1958-1966); and d) Nominal rent (1966-1978).

For the nationalisation of urban private housing, we can divide the period into three stages: a) Confiscation and limitation of urban private housing (1948-1954); b) Transformation of urban private housing in two steps (1956-1965); and c) Nationalisation of urban private housing (1966-1978).

Through this historical study we can show that the low-rent system was formalised according to the socialist ideology that government regarded housing as a consumption good and had the responsibility to house every urban family. Urban private housing was nationalised based on the socialist orthodoxy of public ownership. In fact, the low rent system and housing nationalisation were suitable for the national political and economic situation and the government strategy of economic development at that time.

Chapter 4 explores the determinants of urban housing shortages in China under the centrally planned economic system. The main methodology used in this chapter is theoretical analysis and several economic theories will be applied to investigate the issue.

The theory of the industry development strategy in development economics will be applied to analyse the conflict between government investment in industry and in urban housing consumption. To research the effect of the growth of the urban population on urban housing sector, urbanisation theory will be used to clarify the relationship between urbanisation and rural labour migration in China. To analyse the housing market, I will use market theory to study the reason why there were urban housing shortages and disequilibrium in the urban housing market during the period of the centrally planned economic system. To examine the inequalities of urban housing distribution, the administrative distribution system in urban housing will be discussed.

In Chapter 5, China's urban housing system reform will be evaluated. Quantitative analysis will be adopted to investigate the changes in the proportion of capital construction to investment in urban housing construction, the level of average living space per capita and the proportion of family income to rent.

This chapter will discuss the impact on the urban housing system of the decentralisation of investment in housing construction, of the sale of newly built urban housing to establish an urban housing market, of experiments with the low rent system reforms and the selling of the existing housing stocks in selected points in some cities, and of the spread of housing reform all over the country.

In this chapter, case studies will be used to examine reform programs in trial cities, in Beijing and in Shanghai. This study points out that the old housing system has not been fundamentally changed. It provides an essential base for the discussion of key issues of establishing a new housing system based on a market oriented economy in the next chapter.

Chapter 6 will discuss the main issues for establishing a new housing system based on a market oriented economy. In this chapter, economic theory will be used to analyse the issues.

The housing price to income ratio (PIR) will be adopted to characterise China's housing situation. Market theory will then be used to highlight the double gaps that exist in the housing market: in the internal housing market demand exceeds supply and in the open housing market housing is overstocked. Property rights theory will be applied to show that ambiguous property rights over urban housing is the main obstacle to promoting the development of private ownership of urban housing.

In this chapter, the present housing management system will be examined. Finally, the housing finance system will also be investigated and the role of housing provident funds in setting up a new financing system will be discussed.

Chapter 7 aims to analyse the government role in urban housing during and after housing system reform in China. In this chapter different government roles in urban housing issues will be discussed. The rationale for government intervention is presented to argue that it is necessary for the government to take action on urban housing because of market failure such as an inefficiency of housing resource allocation, and negative externalities. Governments can also offset inequalities in the income distribution which results in inequalities in urban housing consumption. In this chapter the "anju project" of Chinese central government is evaluated.

Finally, chapter 8 reviews the major arguments and findings of the thesis, and then, it extends the conclusions to urban housing development in general. It will give some economic policy implications drawn from the Chinese experience of urban housing situation, and the conclusion will emphasise the effects of economic policy changes on the urban housing situation.

Chapter 2 Two Housing Models: Government Intervention in Housing and Government Housing Control

2.1 Introduction

Housing is a basic element in human life. In the past, housing was looked upon primarily as a physical shelter. Today, housing as a whole in a society not only provides a dwelling for a family but also serves as a total social environment because it involves and reflects social development, economic growth and political stability. As a result, most governments throughout the world take action to solve housing problems and thereby to improve living standards for their people.

Government action on housing varies, depending on the different economic systems. Basically, there are two kinds of housing models: one is the housing system in a market economy, the other is the housing system in a planned economic system. In the last two decades there has been a great deal of research on the comparative housing policies or the housing systems of these two models. Research has also been done on modelling government action in different housing systems. Investigating the policies for housing alone, however, cannot show clearly the distinctions between the housing situation in a market economy and that in a planned economy. It is necessary to differentiate comprehensively between government intervention in urban housing in a market economy and government housing control in a planned economy.

This issue will be addressed in this chapter. By investigating this issue, we can clarify whether the role of government in the housing market is efficient or inefficient, and we

can discover whether economic policies formulated by governments improve housing supply and demand in these two kinds of economic societies. The significance of this research is that we can also show why urban housing shortages were a common issue in centrally planned economy countries and why urban housing system reform becomes necessary. In theoretical terms, this study will show the systematic characteristics of government intervention in housing in a market economy and government housing control in a planned economy. In practical terms, it will provide the means to test the effects of economic policy on the housing situation in socialist countries and, in later chapters, to analyse the causes of housing shortages and to evaluate the transition from a government housing control system to a market-oriented housing system.

In the following sections, I shall focus on the differences between the two systems in terms of the reasons for adopting housing policies and the goals and in terms of the strategies and policies. First, the main reasons for and aims of government intervention in housing in a market economy will be summarised. Second, the choices of various strategies for government intervention in different market economies and how housing policies are used will be discussed. Third, how the government manages the housing control system in a planned economy will be depicted. A model to show the distribution of housing investment, housing finance and housing consumption in socialist countries will be developed and the policies and institutional organisations for housing control, including both the supply side and the demand side, will be described. Finally, in the light of the preceding analysis, the differences between government housing control and government intervention will be explored.

2.2 The theoretical basis for government intervention in housing in a market economy

In a market economy, although the urban housing situation is limited by several factors such as the stage of the national economy development, the amount of the national wealth to be invested in housing, the level of family income, the city size, the growth rate of the urban population and individual tastes and preferences, the combination of government action, social preferences and market forces determines the behaviour in housing production, financing and consumption. McGurie described the government role in housing as follows: "government may take an active role, intervening directly, or a passive one, deferring to private market forces and individual consumer demand, to establish the level of production and prices" (1981, p. 3). In market economy countries, why do governments have to take action on or play a role in urban housing?

2.2.1 Reasons for government intervention in the housing market

The reasons for government involvement in housing are many and complex, but there are some common features. In general, there are two main reasons for government intervention in housing: the limitations of housing market forces and inequalities of income distribution.

Limitations of housing market forces

Almost every government has to take action and draw up housing policies in order to achieve a reasonable housing standard for its population. In market-economy countries, the urban housing market can be explained in terms of the structure of demand and supply. The demand side involves two concepts. One is a perception of housing need, which is the total requirement for dwellings at the basic standard of housing consumption for every person, regardless of the ability to pay. The other is the effective

demand for housing, which relies on family income, the pattern of income distribution, the rate of household formation and the preferences in housing consumption. On the supply side, the quantity of housing supply depends on the amount of productive resources - land, labour, capital and quality of management.

In a housing market an equilibrium can be kept only between the supply and the effective demand for housing. Because the need for housing as defined above always surpasses the amount of effective demand, housing supply only matches the effective demand for housing. It does not match housing need. Free market forces can't fill the gap. As McGuire puts it: "governments in the market-economy countries have tended to get into the provision of housing in some manner because of a distrust of the ability of the market system to take care of the poor. This leads to more active involvement to fill the void left by the private sector" (1981, p. 7).

For example, during the last 50 years in the United States Federal Government intervention in the housing sector has increased from nearly zero to that of a major participant. This development was a response to the perception that the free market failed to satisfy adequately the nation's housing needs. Friedman and Weinberg pointed out: "government intervention was needed if the goal of the U.S. housing policy was to be fulfilled. This goal, as stated succinctly in the U.S. Housing Act of 1949, is to 'provide a decent, safe, and sanitary living environment ... for every American'" (1982, p. 1).

Inequalities of income distribution

This is another major reason for government action on housing. Pugh argues as follows: "taking a comparative perspective, the main problem in capitalist housing is the relationship of the housing system to the substantial inequalities of income in capitalist societies" (1986, p. 47). Ha Seong-Kyu expressed the same view: "the most important

argument for state intervention in housing is the need to compensate for poverty and inequality in the distribution of income in capitalist societies" (1987, p. 9). We can develop their views in the following way: due to inequalities of income distribution, some people, who need housing for their living, are unable to gain it due to their low income. Pugh defines "the housing gap" as the difference between a market rent per unit of housing and the amount which low-income groups can reasonably afford to pay (1986, p.100). In a market system, housing inequality would basically reflect income inequality. Since the housing market is unable to provide sufficient housing for low-income groups, "one of the objectives of all Western governments has been to subsidise the housing of low income families in order to ensure that they live in better accommodation than they could otherwise afford" (Headey, 1978, p. 23). Government intervention therefore redistributes housing services and reduces the inequality of housing distribution.

The above discussion demonstrates that the insufficiency of effective demand in the housing market and inequalities of income distribution result in government action on housing. These two reasons cause governments to formulate housing strategies for low-income groups in order to improve the housing situation in their own countries. As Headey argued:

"in the case of housing policy, two types of objectives co-exist; supply objectives and distributive or equity objectives. Governments are concerned both with the total supply of housing and with equity questions to do with ensuring that different groups in society are decently housed in tolerable neighbourhoods at reasonable cost" (1978, p. 13).

2.2.2 The aims of government intervention in housing markets

As indicated in the preceding discussion we can define government intervention in housing as follows: in a market economy, the government takes action in the housing

market and in the domain of social income redistribution in order to achieve a reasonable housing standard for the entire population of the country. Generally speaking, in developed and developing countries, government intervention in housing varies, depending on the respective environments, but their housing policies have similar aims and are pursued using similar strategies. The common aims can be classified according to the intention:

To remedy a housing shortage

During different periods, there are some types of housing shortages in most countries, but the extent of the problem depends on the concrete political and economic situation. For example, in Europe after the Second World War there were severe housing shortages. About 22 percent of the entire prewar housing stock had been destroyed or rendered uninhabitable, especially, in Germany, France and Japan, where the devastation to the housing stock was most serious. Governments immediately had to work out a whole set of housing policies to construct new houses and to repair damaged dwellings. Although it seems that housing shortages have now been eliminated in most developed countries, there are still improvement which need to be made in terms of quality (Turner, Hegedüs and Tosics 1992; Ball, Harloe and Martens, 1988; and Anderson 1993).

With industrialisation and urbanisation, developing countries also now have serious housing shortages. In these countries, the urban explosion has occurred within the past few decades since the Second World War. Ha Seong-Kyu explains: "perhaps the most striking feature of the urbanisation process in Asian countries has been the rapidity of growth of large cities" (1987, p. 2). Due to the movement of poor rural migrants to urban areas and the high natural growth of urban population, the housing situation has deteriorated in these cities. Undoubtedly, the most important task for governments is to formulate feasible housing policies, considering both the role of effective demand and

the assessment of housing need, and to take the responsibility for providing basic infrastructure and promoting an increase of housing supply.

To help the poor and alleviate the repayment burden

One of the aims of governments is to help the poor to obtain reasonable living accommodation. When different income levels in a country are compared, poor people always exist, no matter whether in developed or in developing countries. Hallett represented this situation in this way: "the housing problem usually refers not to whether the housing conditions of most people are somewhat better or somewhat worse, but whether the conditions of a sizeable minority are catastrophic" (cited in McGuire, 1981, p. 7) Some people are too poor to afford decent housing, and governments help them to get access to housing in a variety of ways, such as direct provision of housing, housing allowances, taxation relief, low interest rate on home loans, low-price housing services, land and building materials and so on.

There are many different perspectives on government responsibility for housing in free-market societies. Some governments think that government action on housing is not only to provide housing for the poor but also to assist almost everyone. This is the case in countries such as Sweden. The numbers of families gaining some kind of housing assistance in Europe is typically higher than in the United States and Canada. In market economies, the ratio of household expenditure on housing, including rent and utility costs, varies between 10 percent and 25 percent of total expenditure (Renaud, 1991, p. 39). In Sweden around 10 percent of income is usually considered an appropriate amount for housing expenditure, but in America the figure is about 20 percent (McGuire, 1981, pp. 4-10). The former less considers the role of housing market forces, and the government works out a series of housing policies to alleviate the burden of housing repayment; the latter makes use of market mechanisms in order to increase housing supply by means of market forces. The two kinds of approaches are very

different: one is to help the poor to gain access to housing; the other is to assist the whole population to get decent housing. However, in practice, the aim of government interventions is to make the effective demand close to total housing need and to achieve a reasonable housing consumption for everyone in their societies.

To stabilise housing production and improve general housing conditions

This is a long-term aim of government intervention in housing. It is caused by the fact that the increase of effective demand lags behind that of housing need and by the stage feature of demand for housing.

According to McGuire's theory of the Cycles in Housing Policy, we can summarise the stage feature of housing demand as follows: the first stage displays an acute housing shortage, that is the amount of housing falls far short of the numbers of households. This is the present situation in developing countries and was the case in the developed countries at the turn of this century and again after the Second World War. The second stage happens after the quantitative shortage has been matched, that is that the amount of housing must be increased to meet the demands of the population for more living space. So in this stage, the stress will be placed on building larger housing per household. The third stage concerns improving the quality of housing. Once the basic quantity of housing is achieved, people will want to have quality housing, this usually relates to the demolition of some of the old housing that was constructed to minimal standards. During the period of stage 2 to stage 3 the housing industry has a slack period. To avoid the unnecessary loss which will occur during this sector's recession and recovery, and to keep its production efficient, governments want to work out some economic policies to support it in order to maintain a certain level of housing production (McGuire, 1981, p. 12). Governments have to keep housing production stable in order to prevent fluctuations in the housing sector and to bring about an improvement in general housing conditions. For example, Ball explained the situation

in Britain as follows: "an important watershed for firms in the industry was the crisis year of 1973 when housing starts fell to only half of the previous year, a record drop. Many firms collapsed, others survived only through the ingenuity of their accountants or in name only as the subsidiaries of firms that took them over" (1983, p. 43). To assist the housing sector, governments have provided the housing suppliers with preferential loans, and low-cost, serviced land and other resources.

Improving housing conditions involves the economic growth, social development and political stability of a country. Improving housing conditions relates not only to the living space per capita but also to the living environment, although the meaning varies depending on different social situations in different countries. Grigsby and Rosenberg argue: "It has been frequently observed that it is not bad housing which makes a slum but rather the environment of filth and degradation both within the home itself and in the surrounding neighbourhood. The neighbourhood environment has both social and physical dimensions" (1975, p. 43). Generally, evaluating the living environment involves the housing area, which must be large enough to have community facilities such as schools, health clinics, markets, shops, and recreation areas - or to have good access to them as well as the quality of the dwelling itself (Grimes, 1976, p. 109). Therefore, building-construction standards, housing-occupancy codes, and land-use regulations are enacted to regulate the market in order to guarantee the continuous improvement of general housing conditions and to achieve urban planning.

2.2.3 The strategies for government intervention and relevant housing policies

To achieve the aims discussed above, governments have to adopt a strategy when they draw up and implement housing policies. Researchers who have studied strategies for government intervention in housing and housing policies emphasise subsidies and their role. A summary of their conclusions can provide a basis for a comparative analysis of the strategy of government housing control in a planned economic system.

Although housing-policy strategies are very complex and vary depending on the actual situation in different countries, they can be summarised under two main headings. One is a "target-strategy" and the other is a "comprehensive-strategy".

A "Target-strategy" for government intervention in housing.

This strategy can be divided into two. Shidlo defined the selection of a targeted housing strategy by governments as follows: "two strategies can be broadly labelled 'supply-side' and 'demand-side' strategies. That is, policy-makers can opt for subsidies either to builders or to consumers-- or for a combination of both" (1990, p. 1).

Supply-side strategies: Governments adopting this strategy have two choices: They can either draw up housing construction programs in which they build their own housing to let, or they can subsidise private producers.

In the case of government-owned housing, an important problem is the definition of the rent. Some scholars have argued about the role of public housing for rent. They think that the system of public housing for rent has hardly been used in Third World countries. "The universal error (of Third World governments) has been to build at too high an architectural standard for the poor and without a clear understanding of the recipients' needs" (Shidlo 1990, p. 2). However, others think that the "public housing experience includes notable successes and resounding failures. Two cities, Hong Kong and Singapore, stand out among the most successful, with some 40 percent of their populations living in public housing units" (Grimes, 1976, p.104).

Other scholars place the stress on public housing administration. Ha Seong-Kyu presents the government housing target as follows: "efficient administration and effective monitoring of the public housing programme require a good system of co-

ordination and management and regular progress reviews of the programme in the light of overall objectives' (1987, p. 30). Clearly, it is very important to combine public housing with efficient administration. Governments have to formulate a set of clear and strict regulations for public housing. Otherwise, it would not be surprising to find large numbers of middle-income families living in public housing (McGurie, 1981, p.136); this would mean that the aim of government subsidised housing policies cannot be achieved.

The other policy which can be carried out on the supply-side is to subsidise both profit-making and non-profit making private producers. Governments have adopted methods such as low interest rates, low financing charges, low land cost and low operating costs in order to increase the housing supply through reducing housing construction cost. These government subsidies are typically available to government entities, non-profit, and profit-making enterprises, depending on the policies of the government concerned. The large subsidies to builders, although on the decrease in Western Europe, are still continuing in the United States. The public-housing program in the United States contains huge subsidies on the construction side in order to reduce housing costs. However, arguments continue to be put forward in the United States in favour of the European path toward individual-family assistance and away from indiscriminate builder subsidies (Headey 1978; McGuire, 1981; Clapham, Kemp and Smith, 1990).

Demand-side strategies: The other important strategic choice of housing intervention by government is to stimulate housing demand by subsidising housing consumers. In this strategy there is a package of housing policies, such as tax concessions or cheap credit assistance for house purchase, supplying cheap or free urban land for self-reliant builders, and free housing in houses which are not able to be afforded to for low-income families.

However, some governments prefer a system of housing allowances for individual housing consumption to a system of assisting housing investment and housing finance. For this purpose, many countries have introduced or extended housing allowances¹ designed to bridge the "housing gap" where housing costs are above the capacity to pay. These cash payments to reduce living costs and to increase the consumption of housing services are not used to replace other forms of assistance, but rather they become part of a set of co-ordinated reforms in housing finance (Pugh, 1986, p. 42). Some scholars argue that housing allowances cannot solve housing problems and have some side-effects so that "the greatest drawback to a system of housing allowances is the fear and suspicion that unrestricted cash payments to families would be used to purchase things other than housing" (McGuire, 1981, p. 68). A further argument against housing allowances is that the payments themselves do not guarantee that additional housing gets built. Therefore, in the United States and Canada, this subsidy has been restricted.

For most developing countries (with market economies) the use of price subsidies on the housing demand side on a significant scale is severely limited by budgetary considerations. In these countries governments adopt other strategies to increase housing demand. For example, in relatively rich developing countries subsidies are mainly in the form of charging below-market prices for public land or government loans, of policies for sites-and services (provision of serviced lots by the government) and low-income housing programs. In relatively poor countries, "the upgrading of squatter settlements by introducing appropriate public utilities and granting security of tenure has a general element of subsidy" (Grimes, 1976, p. 99). The concrete strategy adopted on the demand-side thus varies, depending on the economic situation and political context of housing policies in various countries.

¹According to the definition given by Headey, housing allowances are subsidies from governments. It is assessed on the basis of family size and income (1978, p. 47).

A "comprehensive strategy" for government intervention in housing.

Under this strategy governments draw up housing policies providing indiscriminate assistance in order to increase housing consumption or to improve living standards. This strategy has two dimensions: a temporary housing strategy; and a long-term housing policy.

Adopting rent controls or rent ceilings is an example of a short-term housing strategy. For example, in the United Kingdom rent control has been used twice. The first time was during the First World War, and the second time was in 1939 with the advent of the Second World War. At present almost all rental housing is still under some form of control in the United Kingdom, with the exception of some very expensive housing at the upper end of the spectrum (McGuire, 1981, p.135). Rent controls have, however, only been effective for limited periods of strong social cohesion, as during wartime, and when applied in combination with strict controls on other incomes and prices (Ha 1987; Headey 1978; Clapham, Kemp and Smith, 1990). Overall the use of rent controls to prevent private individuals from making socially caused gains and to mitigate the imperfections of housing markets has a long and unsuccessful history in developed as well as developing countries (Grimes, 1976, p. 98).

Improving urban residents' housing standards, especially assisting the poor, is a long-term housing strategy for government intervention in market economies. However, countries in western Europe and north America have very different perspectives with respect to social responsibility for housing services. In European countries in market economies, governments use a comprehensive housing strategy to subsidise the majority of family housing. They think that housing is a basic human right. Therefore, the government's function is not only to distribute housing to the poor but also to assist almost everyone. So, the number of people gaining some forms of housing benefit in

Europe is significantly greater than in the United States or Canada (Headey 1978; McGuire 1981; Clapham, Kemp and Smith, 1990).

The main housing policies in market economies

The extent and method of government intervention in the housing market are different in different countries. Both direct and indirect housing policies are used, depending on the national economic situation. Although housing policies are complex, we can identify several main categories.

The first policy is regulation of land use by governments to gain the most efficient effects on prices and resource costs in the housing industry. A government can give a preferential land price to the housing supply side or the demand side in order to reduce housing cost.

The second set of policies includes those for provision of some basic infrastructure and public housing, including zoning, land tenure and development, sites-and-services and squatter-upgrading programs. These policies are of benefit to housing builders, and therefore, favour the increase of housing stocks.

The third policy is tax subsidies for housing production and consumption. This can be a very substantial component, in some countries, such as in the United States where it is the most critical external factor in lowering housing costs. In the United Kingdom the taxation system gives significant priority for home ownership.

The fourth policy is government intervention in the housing finance system, including government guarantees against default on housing loans, government loans on easy repayment terms, subsidies towards the costs of interest rates on private loans, and

home savings grants. This aims to increase the capacity of urban residents to build or buy their own housing.

The fifth policy is rent assistance, as in Australia. According to this policy, the government provides cash to low-income families to pay rent for housing which they otherwise could not afford. The policy is easy to carry out, based on the assessment of family income, but it does not guarantee that money will be used for housing rather than other things.

The last category of housing policies is direct intervention, that is creation of public institutions directly intervening in housing production and provision such as public land development agencies, public housing agencies and public banks like housing banks and municipal banks. Renaud argues that "this form of direct intervention--reliance on public institutions for the production of housing--is usually the least successful, according to two decades of World Bank experience" (1991. p.16).

2.2.4 Summary

The aim of government intervention in housing markets is to remedy housing shortages, to help the poor and alleviate the repayment burden, to stabilise housing production and to improve general housing conditions. The strategies applied for government intervention in housing can be on the supply side, on the demand side or on both. Government intervention in housing promotes the development of housing investment, finance and consumption in market economies.

2.3 Government housing control in a planned economy

In this section I will discuss government housing control in a centrally planned economy. Although there has been some research on housing systems in socialist countries, there has been little focus on defining the key differences between government intervention in housing in a market economy and government control in a planned economy. In the following discussion, I will define the housing system in a centrally planned economy as government housing control in order to differentiate it from government intervention in housing in a market economy. Although rent control is one kind of government intervention in housing under a market economy, it should not be confused with government housing control under a centrally planned economy.

This section will focus on analysing the housing system under a planned economy in Eastern Europe and the Soviet Union before 1990. The discussion will present the reasons for aims, policies and results of government housing control and explore housing shortages and inequalities in urban housing distribution in these countries. This will provide the theoretical methodology to investigate the foundations of the housing system in China and to evaluate the present housing system reform.

2.3.1 The reasons for government housing control in socialist countries

Before we analyse how government housing control worked in Eastern Europe and the Soviet Union, we have to study the basis of the housing system adopted by socialist countries. In general that there are three reasons for these governments to take comprehensive action on housing.

Establishing a housing system under public ownership.

According to Marxist theory, the forms of ownership and the structure of property rights are key characteristics of an economic system. For a socialist system, the government is the sole legal representative of public ownership, i.e. all property should be controlled by government. Therefore, private ownership of the means of production, including private land or buildings or both, is inconsistent with a socialist economy.

In general, all socialist countries following the Soviet model implemented property nationalisation and a centrally planned economic system. Turner, Hegedus and Tosics described this as follows:

First all, the private rental sector is in the main non-existent in these countries, the introduction of socialism after the Second World War imposed the nationalisation of private property, and that literally wiped out most of the private landlords, or otherwise greatly restricted their freedom of disposal and rent setting. In most cases, the property was left in the hands of local political committees, responsible for the maintenance of the property and allocation of dwellings (1992, p. 2).

Although the extent of private housing nationalisation varied depending upon the different situations in Eastern Europe, after private housing nationalisation the government owned the property rights and controlled the use and distribution rights for the housing stock.

Taking the responsibility for housing according to the socialist ideology.

All socialist countries adopted the following ideology : "the supreme goal of socialism - as it was stressed - was the more complete satisfaction of the constantly growing

material and spiritual needs of all members of society" (Bessnova, 1992, p. 278). Therefore, in socialist countries governments regard housing as a consumption good. Housing should not be traded on the market. Governments had the duty of offsetting most of the housing cost and providing housing for every family. Mathey explained that "since the writings of Fredrick Engels ("*Housing Problem*") the socialist project has always promised to offer a solution to the 'housing question'..." (1990, p. 3). In theory, under a planned economy with the government constructing and allocating housing in a unified way, it should be possible to make it cheaper and easier to have access to housing, based on need instead of on ability to pay.

For example, in the former - GDR (German Democratic Republic), every citizen had the right to housing depending on local conditions. Marcuse and Schumann explain the situation as follows: "the state is obligated to realize this right through the support of housing construction, the preservation of existing housing, and the public control of the just distribution of housing" (1992, p. 110). According to this ideology, the people in a planned economy should never worry about their housing. Their government was a free - housing supplier.

Achieving a centrally planned economic system

Socialist countries adopt central economic planning instead of market mechanisms and plan economic activity through material balances rather than market forces. The central government monopolises all rights to distribute resources among national economic sectors. Therefore, in theory, the government has to control the supply of housing production factors and the demand for housing consumption both in quantity and in quality in order to maintain a steady increase in the economy and in a certain living standards. In reality, socialist governments have never achieved this aim.

2.3.2 The goals of government housing control in a centrally planned economy

In the light of the preceding analysis, we can define government housing control as follows: in a socialist country, due to public ownership and social responsibility for housing, governments have to control comprehensively housing production and consumption in order to attain their goal.

There are, however, differences in the way socialist countries have approached this issue, with significant variation between Albania at one extreme and Yugoslavia at the other. Some have retained aspects of private ownership and others have abolished it. Turner argues that "the aim was common: to ensure a sufficient construction of dwellings under the auspices of the state thus banning private construction, or at least reducing the allocation of resources for private housing" (1992, p. 3). I agree with Turner's view, but I would argue that government housing control also has to be seen in the context of another major goal, that is to accelerate industrialisation. In general, the industrialisation goal has received priority in the allocation of resources at the expense of housing construction. This has meant a slower rate of housing development and restricting living space per capita. Empirical evidence thus suggests that in the centrally planned economies, governments did not achieve in actual practice the improvements in housing construction which they promised in theory.

2.3.3 The strategy for government housing control

Housing strategies in centrally planned economies have exhibited a number of key features: 1. minimising investment in housing to reduce the fiscal cost of housing supply;

2. implementing a low rent and low wage system;

3. adopting an administrative distribution system to manage urban housing allocation;

4. limiting urban migration to reduce the pressure of housing demand in cities.

The economic development strategy and under-investment in urban housing

In general, all socialist countries have emphasised capital accumulation in order to achieve industrialisation and urbanisation. A high proportion of the national income was allocated to heavy industries, and governments directed the bulk of resources to the productive sector. Therefore, the growth rate of capital accumulation surpassed the rate of increase of the people's living standards. In the meantime, when budgetary shortages in these countries occurred, governments first reduced expenditure on sectors such as housing construction (McGuire, 1981; Turner, Hegedus and Tosics, 1992).

In the Soviet Union, for example, although housing was regarded as an essential right for all Soviet citizens, the housing stock deteriorated for many years. From the Bolshevik revolution to the end of the second world war, few houses were built. During this period under Leninism, the government emphasised industry and agriculture. Housing construction was not a priority sector, and few houses were built for the whole first half of the twentieth century. "Thus after the war (the Second World War) the USSR faced a tremendous need for rebuilding, caused not only by the war damage but also by the accumulated neglect of the housing sector for the first half of the century" (McGuire 1981). This conclusion underlines that it was the socialist economic policies in the Soviet Union which caused the housing shortage.

In Albania, housing has only accounted for 4.3 percent to 6.6 percent of total investments during the last forty years. It seems that investment in housing was too low, but during the 1980s the amount of investment in housing still continued to be also 5 percent of total investments (Magnusson, 1992, p. 18). Koleva and Dandolo describe the situation in Bulgaria as follows: "in the development of housing, the centrally planned resources are provided by the so-called 'rest-principle', i.e. giving priority to

industrial production, leaving only the remainder of resources for the non-production spheres, including housing stock" (1992, p. 30).

In Poland like other socialist countries, the housing sector was not considered as a productive enterprise, which means that it could never claim priority in economic development planning. When economic difficulties occurred, investment in housing was seen as a cause of reductions in productive investment, and consequently there was a decreasing share of housing investments (Schmidt, 1992, p. 179 and Kozłowski, 1992, pp. 181-189).

It was a prevailing phenomenon in the centrally planned economies that governments controlled housing supply and underinvested capital in housing in order to carry out their economic development strategy and to accelerate industrialisation at the expense of people's living standards. Therefore, it is no surprise that there was an insufficient supply of housing caused by insufficient investment.

The low-rent and low-wage system in urban public housing

Two policies characterised the socialist housing system. One was low rent, that is to control the housing supply by low public housing payments. Under the low rent policy, the extent of provision of housing was more determined by investment allocation rather than the level of rent collection. The other half of the equation was to control housing demand by low wages. In these countries, housing consumption was not based on the consumers' income, but depended more on housing subsidies by their governments. Since living standards were determined by the extent of housing subsidies, the governments controlled demand for housing. Through implementing these two policies, the amount of the supply of and demand for housing depended on central planning and housing market forces were weak. Therefore, governments could realise two-sided control: aggregate supply of and demand for housing in housing markets.

To achieve housing control, governments implemented a low-rent policy to restrict supply in the housing market. Due to rent being too low to make up for the cost of housing production, the housing sector could not get any profit from production and develop itself, and housing supply never matched the increased demand for housing (a minimal living standard). Moreover, because the rent was too low to finance normal housing maintenance, the condition of old housing stocks worsened.

In Eastern European countries, rent only accounted for a very small proportion of employees' wages. Families living in state housing in Albania, which most urban families did, paid a very low rent. The rent amounted to 2 or 3 percent of the monthly family income, i.e. the income from one or two work days was sufficient to cover rent payments, while the payments for water, electricity, and other services were also nominal (Magnusson, 1992, p. 18). In Yugoslavia, which people consider as a pioneer in economic reform and a market-orientated economy among socialist countries, the extremely low rent for social housing in 1980 amounted to less than 1 percent of the construction costs. In 1983 no more than 2.8 percent of all household expenses went on housing as compared with 5.5 percent for tobacco and beverages (Nord, 1992, p. 293). In the USSR the low rent covered only one-third of total running costs, contributed nothing to current capital repairs and amounted to 3-4 percent of family income (Morton and Henry, 1990, p. 233 and, Bessonova, 1992, p.278).

In reality, the low rent was a constraint for private owners of rental property due to lack of current or potential profit. So landlords would not want to improve or even maintain the houses leased. Marcuse and Schumann described this situation in the GDR as follows: "for them (landlords), the policy amounted to what was called 'cold socialisation', a situation where donation of the property to the state was in effect more advantageous than keeping it" (1992, p. 112). Under the low rent policy, no private houses for lease could exist profitably.

To control demand for housing, governments carried out a low-wage policy to restrict housing demand. Because of low wages there was no way for urban residents to choose their own housing. They only had access to housing which governments distributed. Although in some Eastern European countries, housing system reform had started and there was some commercialised housing, it was impossible, with the standard of wages, for normal employees to get access to buying or renting housing in the housing market. In Bulgaria, for example, an individual could buy a 1 square metre housing area for 1.4 month's salary. In the other words a dwelling unit of 90 square metre cost eleven times the average annual salary (Koleva and Dandolova, 1992 p.33). Muziol-Weclawowicz explained the situation in Poland as follows: "If we compare that level of prices with the average salaries in 1987 it will become clear that with an average annual salary one can buy only 1 square metre of a flat" (1992, p. 212)..

The limits on efficient demand under a centrally planned economy were therefore due not only to housing shortages but also to the low purchasing power. According to Hegedus and Tosics: "In the traditional planned economy the shortage was generally in the consumption goods market, and the constraints on the demand of households were not in the form of prices but in the physical shortage of available units and the strictly limited incomes of the population" (1992, p. 332). Therefore, government used low incomes to control housing demand. Although there was a long waiting list for housing, from an economic perspective it was only housing need, not efficient demand for housing.

Administrative distribution of urban housing and control over migration

This is a typical characteristic of housing management in socialist countries. "State housing has mainly been allocated to urban areas while dwellings in villages have been built by individuals" (Magnusson 1992, p. 16). Public housing which urban residents

lived in was allocated by central or local governments, their agents, or workplaces. The administrative distribution of urban housing was determined by the view of housing as a consumption good. Because housing was not a productive good, government took most of the responsibility for housing urban people, and the balance between supply and demand was set by planning.

Under the administrative distribution of urban housing, governments were not only in control of provision and allocation, but also of redirecting housing from one group of the population to another. For the majority of people, once you got a minimally adequate house, you had little chance of improving your housing situation because the method of housing allocation prevented people from expressing their consumption preference. Meanwhile, a privileged minority could occupy more houses than they needed. Hegedus and Tosics state that, due to the advantages of positions of power, in recent decades certain groups in society have obtained advantageous and privileged housing positions (1992, p. 163). Therefore, under this policy "a detailed look will show in case after case how policies apparently well intended and well designed have produced certain positive results, but ultimately failed to achieve their proclaimed goals or were distorted in practice" (Marcuse and Schumann, 1992 p. 76).

In order to control housing demand, governments strictly limited migration from the countryside to urban areas through a household registration system. If people could not get household registration status in an urban area, they were not allowed to rent or buy housing in the city.

For example, in Hungary "there has been a realisation that keeping people in the villages prevented the development of further housing problems in the town" (Sollince, 1990, p. 254). To live in any city or town in the USSR, a resident permit (*Propiska*) was required. The *Propista* system and the way in which accommodation was distributed placed limits on geographical and occupational mobility. Without *Propiska* ,

one cannot apply for housing in an urban area (Kalinina 1992, p. 256 and Morton 1990, p. 224).

The above discussion shows that the administrative distribution of urban housing determined what kind of house different urban residents might gain according to their stratum or social levels. Migration limits also determined who might get access to public housing in cities. Therefore, these housing policies restricted the demand for urban housing. In practice they caused problems when housing was distributed.

2.3.4 Housing problems under government housing control

Under a centrally planned economy, the underinvestment in housing, low rents and low wages, and administrative distribution of urban public housing caused many housing problems. Government housing control results in housing shortages and inequalities of urban housing distribution.

Housing shortages in centrally planned economies

As discussed in the preceding sections, although in socialist countries governments took responsibility for housing their population, in practice they ignored housing construction and only gave priority to industrial development. Underinvestment in housing resulted in less capital for building new housing. At the same time, the low-wage policy constrained housing demand on the one hand, and the low-rent policy restricted housing supply on the other hand. Due to housing consumption being nearly free and not closely related to income, housing demand always exceeded housing supply. Therefore, as a general consequence of the government housing control in these countries, there was a permanent shortage of housing (Hegedus and Tosics 1992, p. 322).

In Bulgaria, in 1985, 75 percent of dwellings were overcrowded, and according to the general census of population and housing stock, a quantitative shortage of housing prevailed in 1991, mainly in the big cities. Government provision could not fulfil the demand for housing. There was a fifteen-year waiting period to buy or rent housing in Sofia, and ten years in most large cities (Jonsson 1992, p. 26; and Koleva and Dandolova, 1992, p.33).

In the case of Czechoslovakia, Michalovic explained "due to the urgent need for reconstruction and rehabilitation it was expected that the total deficit would be 307,600 dwellings at the end of 1990" (1992, p. 55). The information available demonstrates a severe shortage of urban housing under government housing control. The problem can be described in terms of a deterioration of existing housing stock and a collapse of housing supply.

In the Soviet Union, people who lived in less than 5.5 - 7.0 square metres of living space per capita could be defined as "in need of housing". Andrusz showed that "according to official estimates (1990), currently about 14 million families are on housing waiting lists. But there is no way of knowing how many families living below this minimum are not on a waiting list" (1992, p. 239). In fact there were many thousands of people who had no definite place of residence or work. They were the homeless, spending their nights in lofts, basements, construction sites, doorways, freight cars ungraded industrial plants and abandoned churches (Morton, 1990, p.227).

Inequalities of urban housing distribution

Under government housing control systems, housing was allocated by administrative decision. According to the principle of the administrative housing distribution, personal social position gave a special right to get access to public housing. "Thus the administrative decisions establishing priorities for housing remained in a system of

prolonged shortage, critical in determining who shall live in both existing and newly built or modernised units" (Marcuse and Schumann, 1992, p. 115). This was done relative to personal social levels, not to personal taste or preference and demand for housing. Because of the low rents and subsidies by government for public housing, the more housing space you got, the more welfare you gained. The system of "cheap housing" which is a part of the state socialist housing system created a permanent housing shortage. As Musil explained "no one supported the existing institutional structure of the integral 'administrative-rationing' housing system, as it was labelled by its opponents: the crisis was evident" (1992, p. 63).

In the Soviet Union, government officials monopolised the housing supply. Some officials had several private houses, although only one was legally permitted to each household. Common people, who tried to jump the queue in their waiting list, had to offer housing bureaucrats bribes, or get a connection with the official who was in charge of the housing allocation to shorten their waiting time (Andrusz, 1992, pp. 237-243 and Kalinina, 1992, pp. 250-254). In the meantime, "housing is increasingly becoming stratified between haves and have-nots and is also becoming segregated in the cities as different profession groups cluster together in housing complexes financed by ministries, organisations and unions" (Morton, 1990, p. 237).

In other Eastern Europe countries, there was unequal housing distribution as well. In Poland, there were governmentally imposed ceilings on the eligibility for floor space. In spite of the egalitarian premises of socialism, the quality of housing varied depending on social position. The quality of housing available to people of different classes within the same town or region was different, and housing available to members of the same class in various towns or regions differed as well (Misztal, 1990, p. 270).

In Hungary, although housing system reform was introduced in 1980s, government officials (mainly in local councils) continued to influence allocation. This led to

unequal access: better-off people got the best housing almost free, and there was a significant amount of privileged access in the housing market. "Summarising the current state of knowledge, it is fair to state that today the fact that Hungarian and other East European housing is inequitably distributed is unquestioned" (Sillince, 1990, pp. 258-259).

The above analysis of housing allocation in centrally planned economies shows that the administrative distribution of housing resulted in inequalities of urban housing distribution. Due to the separation of allocation from the housing market, administrative power took the place of economic power in housing consumption. Therefore, it inevitably meant people got access to housing depending on their social rights, not on their economic conditions.

2.4 Evaluation of the differences between government housing control in socialist economies and government intervention in market economies

In the light of the preceding analysis of government actions on housing, we can classify housing systems into two main models: government housing control in a centrally planned economy and government intervention in housing in a market economy. A comparative study of the two models is very helpful in the investigation of housing system reforms in centrally planned economies, especially in the study of China's present housing system reform. Through a comparison of the two we can obtain a general standard for evaluating transition to a market-based housing system from a central planned housing system.

a) The basic approach: In a centrally planned economy, housing is regarded as a public or distribution good. The production of housing should come into being as the property of the whole society (in actual fact, as nationalised property). The amount of production

and the method of housing distribution depend on rules and policies determined at a social level by the socialist government.

In a market economy, housing is regarded as a private or economic good having the special characteristics of durability, inheritability and spatial fixity (Renaud, 1991 p. 6). Individuals bear the responsibility for housing themselves. People determine styles and standards of housing consumption according to their own preferences and incomes.

b) Government action on housing: Owing to the different ideology of the two models of housing systems, government action on housing has distinct roles. In socialist countries government housing control basically takes the place of the housing market. Governments adopt rigid central planning to allocate investment in housing, to constrain housing supply and demand, and to determine living standards. They limit housing development in order to speed up industrialisation.

In a market economy, to overcome the limitation of housing market forces and inequalities of income distribution, government intervention in housing aims to help the housing sector to increase housing supply and to assist the provision of housing for low-income families. Generally speaking, government intervention in housing is to guarantee that the whole population has decent housing conditions.

c) Financing of production: housing financing for production means the money supplied by any source other than the residents or builders of the dwelling for the construction or purchase of housing, including construction funds loaned to builders and mortgage funds loaned to individual families by any types of financial institutions (UN Statistical Office, 1974, p. 21).

In socialist countries, governments invest in housing construction, and local authorities or workplaces can gain capital grants, subsidies and tax rebates for housing. Household

incomes are a very small share of the market rent level, and households get indirect housing subsidies. There are no channels for the financing of housing. Under the low-wage and low-rent system, on the one hand, personal savings in banks are at a very low level, on the other hand, the direction of saving mobilisation is determined by the central government.

In a market economy, housing is basically a self-financing sector. Households must take responsibility themselves to provide for the entire cost of their accommodation, and their housing consumption accounts for a high percentage of the family income. Saving flows through mortgage repayments and thus plays a key role in the financing of housing. There are various sources of funds for housing, such as commercial banks, insurance companies, private lenders, building societies, savings-and-loans associations and government appropriation. These institutions are active in the financing of housing. They can collect a lot of capital to invest in housing construction.

d) Housing investment: the main body of investment in housing is correlated with the various housing systems. Housing resources in a planned economy are allocated by the central planning process. In the national economy, due to housing not being a distinct productive sector, it belongs to the part of "capital construction" defined as "non-productive construction" (Renaud, 1991, p. 7). So the cost of "social consumption" is paid from central or local government budget resources and workplace profits. The basic mechanisms of government control over investment in housing operate at several levels: the comprehensive national plan determining the number of houses to be produced and the availability of the resources – labour, materials, and capital – for their production; the regional and then local plans developed to implement the national plan; and workplace or housing cooperative plan following the decision made by higher level organisations to build or distribute housing. Housing subsidies for households are inclined to become very large. The bulk of investment in housing comes from central

government budget resources and is most directly influenced by national economy strategies and central planning.

In a market economy, housing investment is a decentralised decision-making process. The extent of investment in housing reflects national economic development, population structure, income level, and housing vacancy rates. There are different roles for government intervention in housing. For example, the government may make more indirect intervention in housing investment as in the United States on the one hand, or may adopt more direct intervention in building public housing as in the United Kingdom on the other hand. But in market economies, investment in housing is most directly influenced by profit rates and interests rates of housing in comparison with investments in other sectors. Therefore, market factors play the most important role in housing investment.

e) Housing price: Under government housing control, the rent level is centralised, and it does not play any role in housing markets. As the preceding analysis shows, governments fixed the rent level for several decades and were proud that rents were very stable. The low rent policy made the consumption of housing services and the production of new housing heavily subsidised. The distorted rent created excess demand for housing and a permanent housing shortage.

In a market economy, the housing price (rent or selling price) is decentralised. Governments only intervene in housing as a form of social welfare or subsidy to provide the poor or low-income groups with a certain living space. Housing prices in the market economy reflect the value of the housing and fluctuate in accordance with the cost of housing production and the price index of other consumption goods. Housing prices adjust the supply of and demand for housing.

f) Housing consumption: In a planned economy, governments have the authority to command and standardise housing for urban residents. There is no consumer choice in housing because the housing system is supply driven. Housing standards are expected to be uniform throughout cities. The work of housing planning is guided by physical norms and demographic projections. This was done to facilitate housing production. The administrative allocation of housing was adopted to distribute housing according to personal status in the society. All that normal urban residents could do was to fill an application form for housing and join in a long waiting list.

In a market economy, consumers have independence. They can define their own requirements in housing because the housing system is demand driven. People can take advantage of various channels of housing finance to satisfy their own demand for housing consumption. Governments make use of housing policies to overcome the limitation of housing market forces and the inequalities of income distribution and to improve living standards.

2.5 Conclusion.

In the light of the preceding analysis, several results of government housing control in a planned economy can be observed. Low incomes and increased housing demand led to heavy subsidies being provided by governments. Housing prices (rents) were distorted. There was a lack of a financial mechanism to mobilise household savings and to encourage those willing to buy housing. As housing was regarded as a non-productive product, the building industry organisation was inefficient. Under a housing control system both housing shortages and inequitable distribution must appear.

Chapter 3 Formation of Low-Rent System and Process of Urban Housing Nationalisation

3. 1 Introduction

This chapter will discuss China's housing situation during the period from 1949 to 1978. Investigating the formation of the low rent system of public housing and examining the results of the low-rent system and the roots of the housing crisis will provide the basis for the research in the following chapter. The main argument presented here is that the housing system during that time undermined the provision of adequate housing supplies and generated social inequalities.

During these years, the economy can be broadly seen as passing through two phases: national economy recovery and the centrally planned economic system. In terms of housing, we can divide the evolution of the low rent system into four stages, and the period of nationalisation of urban private housing into three stages. Each stage featured different characteristics.

Some scholars (Qi Zhaozhen, 1983; Kirkby, 1985 and Cai Derong, 1991) have researched the low rent system, or the nationalisation of urban private housing. However, few people have analysed this topic in detail, combining the low rent system with the nationalisation of urban private housing to investigate China's urban housing situation at that time. This chapter will argue that the low rent system was formalised according to socialist ideology whereby the government regarded housing as consumption goods and took responsibility for accommodating every urban

family. Urban private housing was nationalised based on the basic socialist orthodoxy of public ownership.

Although the low rent system and private housing nationalisation were discussed separately in this chapter, there is a very close and influenced relationship between them. In order to achieve national economic recovery as quickly as possible, the government, at first, had to retain private housing tenure in the housing market and limit urban private housing development only confiscating a small section of urban private housing (1948-1954). Only after this period did the government have a stable political and economic foundation on which to implement its low-rent system in 1955. Although low-rent was a requirement of socialist welfare orthodoxy, the housing industry could not get enough money from rent to develop housing production. Housing construction had to depend on government subsidies and investment. Therefore, housing supply was not based on demand for housing in the housing market, but was decided by government planning. On the other hand, low wages limited housing consumption. Demand for housing didn't depend on consumer income and preference, but on government planning. Consequently, the government controlled both supply and demand for urban housing through the low-rent and low-wage system.

After the commencement of the low rent system in 1955 and the acceleration in the development of heavy industry urban housing shortages began to appear. In 1956, the government began the transformation of urban private housing to increase the public housing stock in order to remedy urban housing shortages. Due to decreased investment in housing causing housing shortages, nationalisation of urban private housing was seen as the easiest method to solve the problem. In 1966 this resulted in all urban private housing being comprehensively nationalised. Nationalisation of urban private housing was to remove inequalities of housing consumption between private housing owners and tenants, and to improve the living standards of urban

people. However, the low rent system caused new inequalities in urban housing consumption from the start of the low rent system in 1956 until 1978. The more that public housing was provided through the nationalisation of urban private housing, the more the subsidy burden on government grew.

3. 2 The low rent system and the housing crisis (1948-1978)

After the formation of the People's Republic, socialist relationships of production and consumption were established step by step. As a result, the housing situation was closely aligned with national economic development policies, and the proportion of public housing progressively increased, with the nationalisation of privately-owned houses. During the socialist transition, the government tried to control all housing stocks in cities and restricted the development of private tenure relations. So, except for a small amount of private housing under owner occupation, private housing to let only accounted for a tiny proportion of all urban housing. The conflict between supply and demand for housing thus mainly focused on the system of urban public housing and the process of urban housing nationalisation.

3.2.1 Housing tenure relationships in the urban housing market (1948-1954)

Before the People's Republic of China was founded on 1 October 1949, the Chinese Communist Party already controlled most urban and rural areas in China. In cities many housing problems appeared. The Central Committee of the Chinese Communist Party (CCPCC, hereafter) and the government issued some documents on urban housing to explain relationships in the urban housing market (Fangcan Tongxunshe [Real Estate News Agency] 1982, p. 1). During the period 1948 to 1954, the Party's policy towards urban housing included maintaining housing tenure

relationships in a housing market, limiting the development of private housing, confiscating bureaucrat-capital housing and taking over the housing of the Guomindang government.

Some scholars have argued that as soon as CCP came to power, a socialist system was introduced and urban housing was controlled under the centrally planned economy and provided under a social welfare system. Kirkby argues that "from the early 1950s on, therefore, urban housing provision was considered the responsibility of the state" (1988, p. 228). Chu and Kwok state that

Since 1949, Chinese housing has been provided within a socialist system. The general assumptions are that under this system housing is primarily a social welfare and income subsidy; therefore, this sector is planned in relation to social need, and housing is mainly supplied by the state (1990, p. 643).

Contrary to these views, however, during the period from 1948-1954 there were still a large number of privately-owned houses rented in the housing market, and the rent was enough to cover the cost of housing. I agree with Xia and Qi's view in 1986 (cited in Kim, 1990). They state that "China has allowed some private home ownership since 1949" (Kim, 1990, p. 107). At that time, the government still allowed individuals to let houses to other people. In the meantime, the government promulgated some documents about the rent level of public housing.²

After occupying cities, some army units, local government organisations and institutions tried to occupy privately-owned and public houses for free. In order to stop this behaviour, on 20 December, 1948 the Central Committee issued a document

²These documents can be found in *Fangchan tongxunshu* (Real Estate News Agency) 1982, *Zhongguo fangdichan zhengce wenjian huibian 1948-1981* (Selected documents on national real estate policies 1948-1981).

titled the 'Resolution on the issues of urban public housing' (*Guanyu chengshi zhong gongfang wenti de jue ding*) (CCPCC 20 Dec. 1948). This document stated that:

Without authorisation no organisation, institution or person are allowed to occupy urban houses owned by the citizens and to rent or to borrow the houses without special permission. ...All public organisations and persons, that have been allowed to use public houses to work or to live in, have to pay the rent to real estate agents. The rent should be used to maintain the houses, to buy new furniture, to pay the salary for the agents and to reproduce new houses (*Fangcan Tongxunshe* [Real Estate News Agency], 1982, p. 1).

Nevertheless, although there were some documents like the above to explain how to deal with urban housing problems, forcibly occupying privately-owned houses and refusing to pay rent for house owners still occurred. In order to stabilise housing tenure relationships, therefore a government housing policy was published, entitled "The Nature of and Policy for Urban House Property and Rent" (Xinhua News Agency, 11 August 1949). In the policy, there were the following provisions concerned with the privately-owned housing:

Recognise, in general, private ownership of urban house property, protect legal property rights and appropriate operation, and prohibit any organisation, institution and person in any way from occupying privately-owned houses.

Allow privately-owned houses to be let, with the lease to be determined by the owner and the tenant through consultation, but ban the development of real estate for speculation.

The owner and the tenant should both comply with and carry out the lease voluntarily set up. During the lease's period of validity, the owner has to maintain the house according to the lease and shouldn't arbitrarily raise the rent or force the tenant to move; the tenant has to pay the rent and shouldn't deliberately delay or refuse to pay the rent.

The government has a right to protect urban houses ... For privately-owned real estate, the government shall levy taxes according to the rule of progressive taxation using different grades (*Fangchan Tongxunshu* [Real Estate News Agency], 1982, p. 3).

According to this policy, local governments, all over the country, drew up and implemented their regional policies to maintain the tenure relationships in the housing market. At that time, basically, the rent level was reasonable and could compensate for the cost of housing. In the urban housing market, there was a balance between the supply and demand for housing. For example, in 1951, Tianjin municipality approved the regulation "The Evaluation Method for Setting the Public Housing Rent". At that time, the average rent per square metre was 0.35 yuan (RMB) for a flat in a multi-storey building (*loufang*) and 0.203-0.63 for a single-storey dwelling (*pingfang*) and the rent accounted for 10.41 percent of the average income per employee. In Beijing, Shanghai, and Guangzhou, the rent could compensate for the cost for housing construction. During this period (1949-1954), the housing market was in equilibrium (Qi Zhaozhen 1983, p. 19).

The above evidence shows that, during the period 1948-1954 the Chinese government did not take all urban housing under central control and didn't allocate urban housing under a social welfare system. The government recognised urban housing as a commodity and allowed individuals to let houses. There were still housing tenure relationships in a housing market. At the same time, the government

took action to limit private housing sector development. For example, housing property was registered, the demolishing and rebuilding of urban houses by landlords were limited and the supply of construction materials was restrained except for necessary housing maintenance (Wang Yifu, 1951).

3.2.2 Emerging low-rent and low-wage system (1955-1957)

After the period of national economy recovery, the government adopted the Soviet model and took responsibility for urban housing according to the socialist ideology. The policy-makers regarded housing as a consumption good, and the government took over payment for most of the housing costs and providing housing for every urban family. From this time onwards, the Chinese government adopted centralised policies for housing construction and the allocation of housing and introduced a low-rental housing welfare system (Zhang Qifeng, 1987, p. 20).

As discussed in the previous chapter, the low-rent and low-wage system was a component of urban housing control under the centrally planned economy. In August 1955, the government issued a document titled "The order to carry out the wage system and to adopt the currency system for all personnel of the organs of state" (the so-called "the eight-grade wage system"). In this order, the government stipulated the combination of low wages and low rents. The main points were:

The method of drawing up rent levels, mainly based on an official's income at present, gives consideration to an official's ability to make housing payments, and at the same time, is combined with the spirit of "using rent to build housing and homes". If we set the rent high it will increase an official's living cost; if we set the rent low we cannot use the rent to cover the regular maintenance expenses. According to this method, we can use the rent to make up the basic maintenance cost for the dormitory, and pay due

regard to the official's ability to make housing payments. Based on our estimate, the rent per month is 1.5 yuan for each room...At present the government has to subsidise half of the fee for housing maintenance.

During the period of drawing up rent levels, we collected information about Beijing and the Soviet Union. Depending on the different grades of urban housing, the highest rent per square metre per month is 0.3 yuan, the lowest is 0.048. Total average rent should be about 0.12 yuan. This method is rational as well as simple.

The ratio of the rent to an official's income is an important issue. Due to the different ranks and salaries of officials, and differences in living spaces, the rent may account for different proportions of an official's income. But in accordance with our estimate, the rent generally accounts for 3-5 percent of monthly income (The State Council of the People's Republic of China, 1955, p. 145-148).

The above summary shows that according to the socialist welfare approach to housing consumption, employees shouldn't pay too much money for their housing. The government had to adopt the low rent method to reduce the burden of housing payments. In practice, however, the low wage method constrained employees' housing consumption and decreased the demand for housing and individual investment in urban housing construction. The urban housing welfare system was realised in name. In reality, the government gained overall control of housing construction by the low rent method and of consumption by the low wage method.

The low-rent and low-wage policy weakened housing market forces in order to realise housing control. Under the low-rent policy, the returns on and increase in housing provision were determined by investment allocation rather than by the

amount of rent collection. Under the low-wage policy, housing consumption did not depend on a consumer's income, but depended on government housing subsidies.

Why did the government implement housing control on both sides of supply and demand? One reason was that market forces were limited in the smallest range so that the government could exercise greatest authority in the administrative distribution of urban housing. We assume that if the low-rent policy were implemented alone, demand for housing would exceed housing supply; if the low-wage policy were only implemented alone, supply of housing would exceed demand for housing. The other reason was that it was easy for the central government to accumulate capital and resources to speed up industrialisation and for other purposes at the expense of housing production and consumption. Kirkby explains this as follows: "Its strategic prescription for the cities was to transform them from slothful, corrupt centres of consumption (*xiaofei chengshi*) to purposeful socialist 'producer cities'" (*shengchan chengshi*) (1988, p. 228). Therefore, all resources were concentrated on the construction of factories and office buildings. As a result, the urban housing problem worsened.

After the "wage and currency system" document was announced, all cities competed with each other to reduce rents, and local governments gave subsidies to officials working in administration and management. Enterprises also decreased the rent level for their employees.

Public urban housing could be classified into four kinds: government organisation housing, enterprise housing, military family housing and civil public housing. According to a survey by the Urban Service Department in 1956, the rent was too low to keep normal housing maintenance (Zhang Yongli, 1957, cited in *Fangchan Tongxunshu* [Real Estate News Agency], 1982, pp. 369-371).

a) The rent for central government organisations in Beijing, was one third of the housing cost. In local government organisations, such as in Shanghai, Nanjing and Wuhan, the rent paid by the officials was only 0.08 yuan per square metre. The rent accounted for 2 to 4 percent of the average monthly wage.

b) The rent level for employees working in state-owned enterprises was much lower than that in government organisations. For example, a survey of 32 large-medium enterprises showed that the rent for living in workers' dormitories was 0.07 yuan per square metre, which was 40 percent lower than that in organisations.

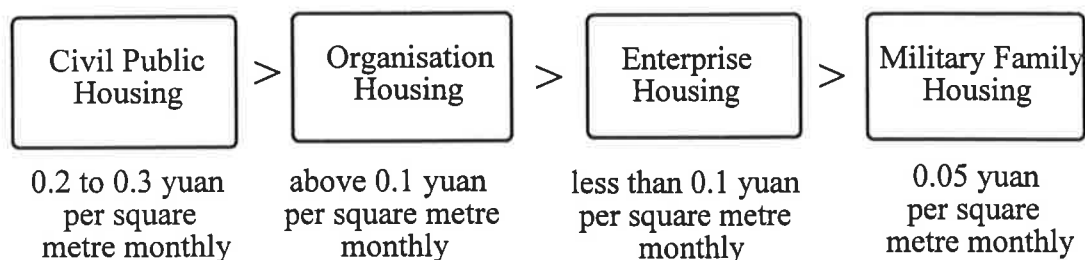
c) The rent level for military officer's dormitories was the lowest. A survey in Guangzhou showed that the rent paid by military families was 0.04 to 0.18 yuan per square metre per month.

d) The rent level varied for civil public housing in different cities. In some cities such as Beijing, Shanghai, Wuhan, and Tianjin the rent was not much lower than that in other cities and accounted for 6 to 10 percent of employees' average salaries. However, in most cities, such as Changchun, Harbin, Shenyang and Taiyuan the rent was 0.08 to 0.19 yuan per square metre per month and accounted for 2.5 to 5 percent of average salary.

Under the low rent policy, although the idea of "using rents to build housing and homes" was discussed, policy-makers in local government considered urban housing as a welfare good, and the rent level was only equal to about half of the expenditure for housing maintenance. The housing consumption cost was a very low part of the officials' income. The government subsidy for urban public housing was taken for granted. The rent situation is summarised in Figure 3-1:

Figure 3-1

Rent levels in urban housing under Public Ownership
under the Low Rent Policy (1956)



The low-rent policy created two kinds of problems. On the one hand, due to rent being less than one third of the cost of housing, it was too low to pay for regular housing maintenance. Subsidies were necessary for urban housing, and there was a lack of capital to develop housing, which meant that sooner or later housing shortages would appear. On the other hand, among the four kinds of urban housing in Figure 3-1 the rent for civil public housing was the highest, and the rent for military housing was the lowest. Inequalities in urban housing thus also developed during this period.

3.2.3 The low rent system and the policy of "using rents to build housing and homes" 1958-1965

Because the rent was too low and inequitable, within two years some economic and social problems began to emerge. According to a government report (Zhang Yongli, 1957, p. 367) and a survey 1957 (Chengshi Fuwu Bu [National Urban Service Department], 1958, p. 427), five issues were important:

- a) The government had to increase fiscal expenditure to provide subsidies for housing costs because the rent was too low to maintain housing. Based on a survey by the National Labour Union in 1957 (cited by Chengshi Fuwu Bu [National Urban

Service Department] 1958, p. 428), excluding real estate tax, management fees and housing insurance, the government provided more than one hundred million yuan for urban housing for employees working in state-owned factories.

b) In the meantime, the rent collected was not enough to keep up with regular housing maintenance. Therefore, a lot of old houses collapsed in cities (Ma and Hanten 1982, p. 230). For example, in Changchun, Jilin province, 105 houses toppled down during the rainy season in 1957 and 636 houses were close to collapse due to being in serious disrepair. Poor housing maintenance reduced the amount of public housing in some cities. In Chongqing, Sichuan province, housing bureaus needed an amount of capital twice as much as the rent paid by the organisation officials to repair their housing; ultimately, the rent of civil public housing was used to solve the capital problem (Zhang Yongli, 1957, p. 371). In Shanghai because the income shortage from the rent collection for organisation housing was about 2 million yuan, the rent from civil public housing was used to compensate for his shortage. Therefore, the regular maintenance for civil public housing was disrupted. Obviously, this was due to the inequalities between the two social strata.

c) Low rent stimulated public housing consumption. Employees tried to give up renting housing from private owners and to force their way into urban public housing. In the meantime, some employees brought their families from the countryside into cities so they could reside in cheap houses. Just after the start of low rent system in 1957, 2.5 million employees asked the government or enterprises to increase their living space or to improve their living conditions (Qi Zhaozhen, 1983). They all thought that "getting one more room is equal to getting one level of promotion in social rank". Some sold or leased their own houses, and lived in public housing (Zhang Yongli, 1957, p. 371).

d) The low rent disrupted the implementation of the "housing self-assistance" policy. Before the low rent system started, in order to increase living standards, some enterprises carried out "housing self-assistance" which meant that if employees invested in housing for their own living they could get some subsidy and an interest-free loan from enterprises. Owing to the low rent for public housing, however, nobody wanted to build their own housing. For example, in the Wuhan Metallurgical Industry Company employees paid one yuan per room per month for enterprise housing, whereas the people building their own houses had to repay the loan at 3.5 yuan per month. At the same time a low-wage level was the limit for employees to take a loan to build their own houses. Therefore, people didn't want to invest in housing, and they only waited for housing supplied by the government or enterprises (Zhang Yongli, 1957, p. 371).

e) The inequalities in rent levels resulted in contradictions. In the Huadong Teacher Training Institute, in Shanghai, a professor paid 76 yuan monthly for a large house, but for the same size house an organisation official only paid 11 yuan. The former was about 7 times as much as the latter. So, the professor refused to pay the rent for over a year. Some people said: "we are all state workers and staff members, but pay different rents. It is really not fair" (Zhang Yongli, 1957 p. 371). Kirkby states that a survey in the mid-1950s demonstrates this inequity - while only 17 percent of ordinary workers' households had four or more square metres (per capita) of living space, 40 percent of white-collar workers (including government officers) had more than this (1988, p. 228).

In the face of the above housing problems, the central government decided to raise the rent level and strengthen the implementation of the policy -- "using rents to build housing and homes". Although this policy was put forward in 1957, the rent only included parts of housing costs such as depreciation, maintenance and management. It excluded profit, tax, insurance, loan interest and land use fee.

The urban rent policies and the system of housing management are very irrational. The rent for the public housing is too low, and the management is imperfect.... In order to ease the shortage of housing, we have to raise the rent level for public housing appropriately, as well as adjusting all kinds of welfare treatment, controlling the growth rate of the urban population and, if possible, increasing housing construction. The rent should include three kinds of expense: depreciation, maintenance and management (Zhou Enlai, 1957).

Although the housing problems were very clear the government didn't take any action until 1957. However, in 1958, it needed to reduce unnecessary expenditure and to provide more capital to speed up the "Great Leap Forward". Therefore, the government drew up provisions to raise rent levels. "In order to carry out 'using rents to build housing and home', rent for public housing should comprise five factors: depreciation, maintenance, management, tax and insurance." (Chengshi Fuwu Bu [National Urban Service Department, 1958, pp. 427-431). The new standard of rent level was the break-even rent as shown in Table 3-1.

The break-even rent meant that the rent was equal to the housing cost including depreciation, maintenance and management fees, and tax and insurance, excluding profit and land rent. So, even with the new rent level it was impossible to solve the urban housing problem because the rent level only covered normal housing maintenance and could not increase housing supply.

Table 3-1 Break-even rent and actual rent in selected cities in 1958
(unit: yuan per square metre per month)

City	Public urban housing			Private urban housing	
	Break-even Rent	Civil Actual rent	Organisation Actual rent	Break-even Rent	Actual rent
Beijing	0.24	0.16	0.08	0.31	0.32
Xi'an	0.23	0.18	0.05	0.30	0.21
Shanghai	0.23	0.22	0.08	0.29	0.21
Wuhan	0.23	0.19	0.07	0.29	0.28
Guangzhou	0.23	0.21	0.09	0.29	0.31
Changchun	0.23	0.12	0.08	0.33	0.15

1. The actual rent of private urban housing was not a rent in a housing market. It had been controlled by local governments since 1956 in the first step of urban housing transformation (see next section).

2. Source: "Calculation of rent for urban housing" (Chenshi Fuwu Bu, [National Urban Service Department] 1958 p. 431).

Although the private housing rent fixed by the Government was higher than the rent of public housing, this sector couldn't get any subsidies from the government. Therefore, there was no way for it to use the break-even rent to keep housing in good condition.

The following conclusions can be drawn. On the one hand, in the absence of profit, the rent level couldn't stimulate the building industry to operate efficiently, and the break-even rent couldn't increase the housing supply. On the other hand, the new rent was one and a half times as much as the rent of civil public housing, and three times as much as the rent of organisation dormitories. Under the low wage level, it was impossible to raise the rent to the new level without an adjustment of the wage structure. Furthermore, the ideology of socialist welfare didn't allow anyone to change this trend. So, in fact, the policy of "using rents to build housing and homes" was a failure.

3.2.4 The nominal rent system 1966-1978

During the period of the Culture Revolution all policies were taken to the extreme. The government propagated "first production, then livelihood" (*xian shengchan, hou shenghuo*). There was little money for the maintenance of municipal infrastructure. Little capital was directly invested in housing maintenance or construction.

At the same time, the low-rent system was regarded as reflecting the superiority of a socialist country, and the rent could only be reduced. Local governments decreased the level of rent for public housing. According to a survey in 34 cities in 1980, monthly rent per square metre of housing was only 0.15 yuan per square metre in 21 cities. In the other 13 cities, the level of the rent was more or less lower than the level before the Cultural Revolution. Some military families in cities only paid 0.072 yuan per month per square metre (Qi Zhaozhen, 1983. p. 18).

By 1976 the average living space per capita in all cities was 3.5 square metres. This figure was lower than the 4.5 square metres of 1951, 25 years previously. Before the housing system reform, in 1978, the average living space per capita was 4.6 square metres, which just passed the 1951 level (Qi Zhaozhen, 1983, p. 19). According to a 1984's survey of the situations in all provincial capitals and the three cities under the jurisdiction of the central government, most of their living spaces were lower than 5 square metres per capita (Table 3-2). Practice demonstrated that the low rent policy under the ideology of socialist welfare and the centrally planned system had caused a serious housing crises.

Table 3-2 Living space and population in 30 large cities
in China 1984

City	Population (million)	Total living space (million sq. m.)	Average Living space per capita (sq. m.)	City	Population (million)	Total living space (million sq. m.)	Average Living Space Per capita (sq. m.)
Beijing	5.571	31.633	5.7	Changsha	0.885	5.555	6.3
Tianjin	3.843	17.08	4.4	Guangzhou	2.418	11.845	4.9
Shanghai	6.391	28.81	4.5	Nanning	0.542	2.615	4.8
Shijiazhuang	0.872	4.58	5.2	Nanjing	1.789	10.156	5.7
Taiyuan	1.316	6.28	4.8	Hangzhou	0.94	5.036	5.3
Huhehaote	0.519	2.702	5.2	Chengdu	1.445	7.806	5.4
Shenyang	3.071	12.338	4.0	Chongqing	1.989	7.15	3.6
Changchun	1.413	6.318	4.5	Guiyang	0.85	3.74	4.4
Harbin	2.19	8.02	3.7	Kunming	0.92	5.474	5.9
Hefei	0.571	4.28	7.5	Lhasa (Lhasa)	0.09	0.59	5.6
Fuzhou	0.727	3.86	5.3	Xi'an	1.594	6.79	4.3
Nanchang	0.781	3.605	4.6	Lanzhou	0.931	4.324	4.6
Jinan	1.071	5.303	4.9	Yinchuan	0.243	1.30	5.3
Zhengzhou	0.921	4.487	4.9	Xining	0.465	2.219	4.8
Wuhan	2.763	13.385	4.8	Wulumuqi	0.924	4.47	4.8

Notes: 1. Although the survey was conducted in 1984, it was the first survey of urban housing after the Cultural Revolution. It still reflected living conditions before housing system reforms in urban areas in China.

2. All of the provincial capitals and cities under the jurisdiction of the central government are included in the table.

3. The population and living space only refers to the urban districts and excludes the rural suburban districts.

4. "Living space" here only refers to bedroom space.

Source: These data are provided by the Tianjin Real Estate Association.

3. 3 Nationalisation of urban private housing 1948-1978

Given the socialist ideology, urban private housing for rent was considered as a form of exploitation. Therefore, the CCP government took action on the urban private housing sector after 1948. In order to achieve a high speed of industrial development, the government had to take over urban private housing to make up for the housing shortages, which were caused by low investment in housing construction. The period of the nationalisation of urban private housing can be divided into three phases, that is confiscation, transformation and comprehensive nationalisation. Due to the fixed proportion of income from rent for private housing owners during the transformation phase, there was only a nominal rent for urban private housing. In 1966 the government stopped paying anything to private housing owners, and the full nationalisation of private housing was comprehensively realised.

3. 3. 1 Confiscation and limitation of urban private housing 1948-1954

Before the People's Republic of China was founded, the CCPCC had announced that the house properties of the bureaucratic capitalist class should be taken over. The house properties of the warlords and those anti-revolutionaries who had committed crimes should also be confiscated. Those properties would be placed under state ownership (Xinhua News Agency, 11 August 1949, p. 6). In order to carry out the task properly, the Government Administration Council (replaced in 1954 by the State Council) issued an order named "An instruction on confiscating properties of warlords, traitors, bureaucrat capitalists and anti-revolutionaries" (Zhengwu Yuan 1951, p. 109).

In Tianjin, the local government confiscated 65,000 rooms owned by the Guomindang government, which included 47,000 rooms for work or offices and 18,000 rooms for living. The local government took over the houses of foreign

companies resulting in about 62,3000 square metres based on construction space (Tianjin Real Estate Bureau, 1994). By the end of 1952, public housing accounted for 12 percent of the total urban housing all over the country (Cao Zhenliang; Hao Shouyi and Yuan Shiming, 1992, p. 27).

During this period (1948-1954) the nationalisation of urban private housing was only implemented within a certain range of housing and with specific characteristics:

The policy on confiscation differed from that of rural land reform in two respects. Firstly, not all landlords' properties were confiscated. Secondly, rather than redistributing the housing to the poorer sectors of the population, the confiscation in urban areas simply brought the properties into public ownership - a process of municipalisation (Wang Yaping, 1992, p.125).

Why didn't the CCP take immediate direct action on all urban private houses after coming to power? The situation of the national economy at that time determined government action in the urban housing market. First, after 1949, in order to achieve rapid economic recovery and development, the protection of private industrial and commercial activities was sanctioned where the state perceived the productive results to be of benefit to the national economy (Riskin, 1987, p. 39). Secondly, "they (the new government) were ill prepared for their new role as arbiters of industrial and commercial complexities in the great cities" (Kirkby, 1988, p. 225). Therefore, they had limited experience of dealing with complex urban housing problems and were cautious. Finally, involvement in the Korean War was another reason for the delay in the comprehensive nationalisation of urban housing (Wang Yaping, 1992, p. 125). Therefore, the government needed a stable political and economic situation.

3. 3. 2 Socialist transformation of urban private housing 1956-1965

After finishing the task of national economy recovery, the situation of the national economy was more stable. The Chinese government sped up the steps of implementing the centrally planned economic system and realising the nationalisation of private property through "the Socialist Transformation Movement". Step by step the government took control of the means of production and consumption, in the urban housing sector as well as in other production sectors. The government carried out the process in two stages. Basic policies for the urban housing transformation were drawn up in the first stage. The range of urban housing transformation was then extended in the second stage.

The first stage of urban private housing transformation in 1956

With the socialist transformation of industry and commerce, the nationalisation of urban private housing started at the end of 1955. After the People's Republic of China was founded and some urban housing was confiscated, public housing in cities increased rapidly, and the average proportion of public housing in the total of urban housing was 12 percent in 1952. By 1955, before the nationalisation of private housing, public housing had increased greatly, especially in large cities as shown in the Table 3-3.

Most of the public housing properties shown in Table 3-3 became public through the socialist transformation of enterprises and commerce. These houses belonged to government organisations, state-owned or collectively-owned factories, and schools or other institutions. Therefore, most private housing for residential purposes still existed and was out of government control. During this time, 70 percent of urban private housing was rented out, e.g. in Shanghai, it was 70 percent, 72 percent in Qingdao and 75 percent in Harbin.

According to the ideology of socialist public ownership, the government had to transfer these private properties to public ownership. Meanwhile, because the low rent policy and shortage of investment in housing construction resulted in urban housing problems, a redistribution of urban housing was needed to ease the urban housing shortage.

Table 3-3 Proportions of urban housing ownership
in ten cities in 1955

City	Public Housing (%)	Private Housing (%)	Foreigners' Housing (%)
Beijing	44.5	53.85	1.80
Tianjin	43.41	53.99	2.60
Shanghai	25.80	66.00	7.60
Jinan	22.00	78.00	nil
Qingdao	57.90	37.90	4.16
Shenyang	64.00	36.00	nil
Harbin	55.31	40.20	4.46
Nanjing	37.75	61.30	0.95
Wuxi	19.75	80.25	nil
Suzhou	14.00	86.00	nil

1. Statistics don't include data on the housing properties of the railway, banking and military sectors.
2. Public housing properties includes all buildings under public ownership such as office buildings for industry, institutions and government, as well as housing for living.
3. Source: Dier Bangongshi (The Second Secretariat of the Central Committee of the CCP) 1956, 'Guanyu muqian chengshi siyou fangchan jiben qingkuang he jinxing shehuizhuyi gaizao de jianyi' (Present basic situation of urban private housing and suggestions for implementing socialist transformation), p. 284.

Dier bangongshi (The Second Secretariat of the Central Committee of the CCP) issued a document, entitled "Present basic situation of urban private housing and

suggestions for implementing socialist transformation" (1956, p. 284). The document offered some reasons for nationalisation and explained what were believed to be the major shortcomings of private ownership of urban housing. These reasons included:

a) Inequalities of urban housing consumption. In most cities there was a housing shortage. Residential conditions for working people were crowded, but it was argued that landlords occupied too much housing for their own use which led to the housing shortage. According to a survey of 3000 housing owners who owned urban housing property of more than 100 square metres (living space) in a certain city, Chao Zhenliang concludes that although they only accounted for 13.1 percent of total landlords, their housing property accounted for 63.7 percent of total private housing. One of the largest landlords among them owned 14,000 square metres (1992, p. 27). Based on a survey of 1,072 landlord families and 307 tenants in Xi'an, the average floor space for each landlord's own family use was 20 square metres per person, while the average floor space among tenants was only 3.9 square metres (Wang Yaping, 1992, p. 128). In Shanghai, a survey showed that the average living space was only 3.4 square metres per capita and more than one million people lived in slum (*Fangchan Tongxuanshe* [Real estate News agency] 1982, p. 285).

b) Exploitation and speculation in the private housing market. Various rent levels were confused. The rent level of private housing, in general, was higher than that of public housing, and was inflating in some cities. It resulted in pressures on the state wage system. High rents affected the living standard of urban people, especially government staff and workers. Under the socialist system, exploitation and speculation in the private housing market was not allowed.

c) Poor maintenance in the private housing sector. Most landlords only collected rent but did not keep up with regular housing maintenance. In the light of an investigation in Shanghai of nine private real estate companies, the maintenance only amounted to

0.6 percent of total rent in 1954. Owing to disrepair, 700 houses collapsed in that year. It claims that if the housing had been managed by government agents this would not have happened (*Fangchan Tongxuanshe* [Real Estate News Agency] 1982, pp. 285-287).

For these reasons, the objectives of the nationalisation of urban private housing were very clear. One aim was to realise socialist public ownership, which reflected the urban housing control and welfare system. The other was to increase public housing supply through urban housing redistribution, without government investment in urban housing.

So, in 1956, the government carried out the first stage of urban private housing transformation. The central government decided the form of transformation and authorised local governments to make decisions about the transformation range, according to the size of the landlord stock and the proportion of floor space on lease. The various policies applying to different categories of landlords are explained below:

a) The method of urban housing transformation

The central government formulated three forms of urban housing transformation:

(i) Joint state-private ownership (*Gongsì heyìng*): according to the situation in different cities, local governments set up a company which was controlled by the housing bureau of the local government. The management responsibilities for the rent of private houses was transferred from the private owners to the public company. Tenants paid rent to the company rather than to the owners. The company then paid a fixed annual interest to the landlords, depending on the rented property. This method was directed towards the largest landlords and was known as "state capitalism", which was also used during the socialist transformation of industry and commerce.

(ii) Unified management by the government (*Guojia jingzu*): the housing bureau took over rented private houses on behalf of the local government and provided a comprehensive management service, which included allocation, maintenance and rent collection. This method was directed towards the middle-sized landlords. The real estate bureau fixed the rent level per square metre and paid the landlord a fixed proportion of the rental income per month.

(iii) Rent retention with government supervision (*Zujin baoliu, guojia jiandu*): the central government allowed small landlords to rent their houses on the private housing market under local government supervision and rent control. The small landlords had to comply with relevant government policies, such as rent and maintenance provisions.

b) The targets of the private housing transformation

These were different among the cities. For example, in Tianjin, the policy was directed towards large landlords with 300 rooms (Tianjin Real Estate Bureau, 1994, p.30), in Shanghai towards those with more than 1000 square metres of housing construction (Cao Zhenliang et al, 1992, p. 28), and in Xi'an towards those with more than 500 square metres of floor space or those who had less than 500 square metres of total floor space, but had at least 300 square metres available to let (Wang Yaping, 1992, p. 128).

The second step of urban private housing transformation in 1958

After two years of the first process, the national political and economic situation changed again in 1958. On the one hand, the Great Leap Forward started, and on the other hand the central government found that there were some problems in the first stage of private housing transformation. One problem was that the process of urban private housing transformation was too slow. Only one fifth of the task was

completed in large cities. In small cities and towns the figure was less than that. Therefore, it was impossible to complete the task on time in large cities (The Second Commerce Department, 1958 p. 288). Meantime, some political issues were raised, such as "everything has been thoroughly transformed, but why hasn't urban private housing been transformed?" "The socialist system doesn't allow exploitation, while the urban landlords are still exploiting" (*People's Daily*, 6 August 1958). As Kim argues, "although the Chinese government didn't explicitly abolish private ownership of urban housing after 1949, manifestations of the public control of housing have prevailed throughout the periods of social reconstruction" (1990, p. 104). Compared with the socialist transformation in other sectors, a further transformation had to be carried out in the urban private housing sector. Therefore, the government began the second stage of transformation of the private housing sector.

a) The target of the transformation

In the first stage, due to the lack of a unified standard for transformation put forward by the central government, the aim was not achieved. Based on this experience, the central government drew up a standard for the second stage, relating to the remaining urban residential buildings, as well as to private non-residential properties, industrial and commercial buildings, properties of religious organisations, and suburban landlords' properties. This policy was directed towards landlords with more than 150 square metres of floor space available for rent in large cities, with over 100 square metres in medium cities and with 50 to 100 square metres in small cities.

b) The method of transformation in 1958

Unified management was adopted for all kinds of landlords. Local public housing bureaus would collect rent and pay the landlord a fixed proportion of rental income of between 20 to 40 percent, averaging 30 percent each month (*People's Daily*, 6

August 1958). After this transformation, most urban private housing was controlled under public ownership. From this time onwards, the urban housing market actually ceased to function. The sole remnant of urban private housing was the fixed proportion paid to landlord - approximately 30 percent of rental income.

3. 3. 3 Nationalisation of urban private housing 1966-1978

After the comprehensive socialist transformation of urban private housing, only one further housing document was issued, entitled "Joint statement on speeding up the socialist transformation of urban private housing" (Central Administration Bureau and Commerce Department, 1961, p.293). This document emphasised completing the transformation as soon as possible. Apart from this policy, there were no more new policies about transformation until the beginning of the Cultural Revolution in 1966.

At the beginning of the Cultural Revolution, a document, titled "Report on several problems with financial, commercial and industrial policies" was issued by the Central Committee of the CCP, and this affected urban private housing. The report stated "all joint state-private enterprises must become state-owned enterprises, the fixed interest for capitalists must be abolished"³ (Cao Zhenliang, et al. 1992, p. 29). Although this policy did not directly attack the urban private housing sector, given the tense political situation most local housing authorities stopped paying landlords their share of rent. In January 1967, "the State Housing and Property Management Department formally announced the abolition of landlord ownership" (Wang Yaping, 1992, p. 131).

³The fixed interest was an annual rate of interest paid by the state to the "national bourgeoisie" on the money value of their assets, after the 1956 conversion of capitalist industry and commerce into joint state-private enterprises.

From then on, urban private rental housing ceased to exist, and the last trace of private housing, the fixed proportion of rent income for the landlords, disappeared. The Chinese government thus realised the nationalisation of urban private housing. Urban housing ownership had changed significantly as shown in Table 3-4 for Tianjin:

Table 3-4 Tianjin Urban Housing Ownership
1950-1985

Category	Total	10,000 square metres					
		Housing bureau		Enterprise housing		Private housing	
Year	square metres	square metres	percen t	square metres	percen t	square metres	percen t
1950	1999	217	11	nil	a	1782	89
1960	2945	1106	37.5	1058	36	781	26.5
1978	4006	1340	33	2233	56	433	11
1985	9562	2556	26.7	6195	64.8	758	7.9

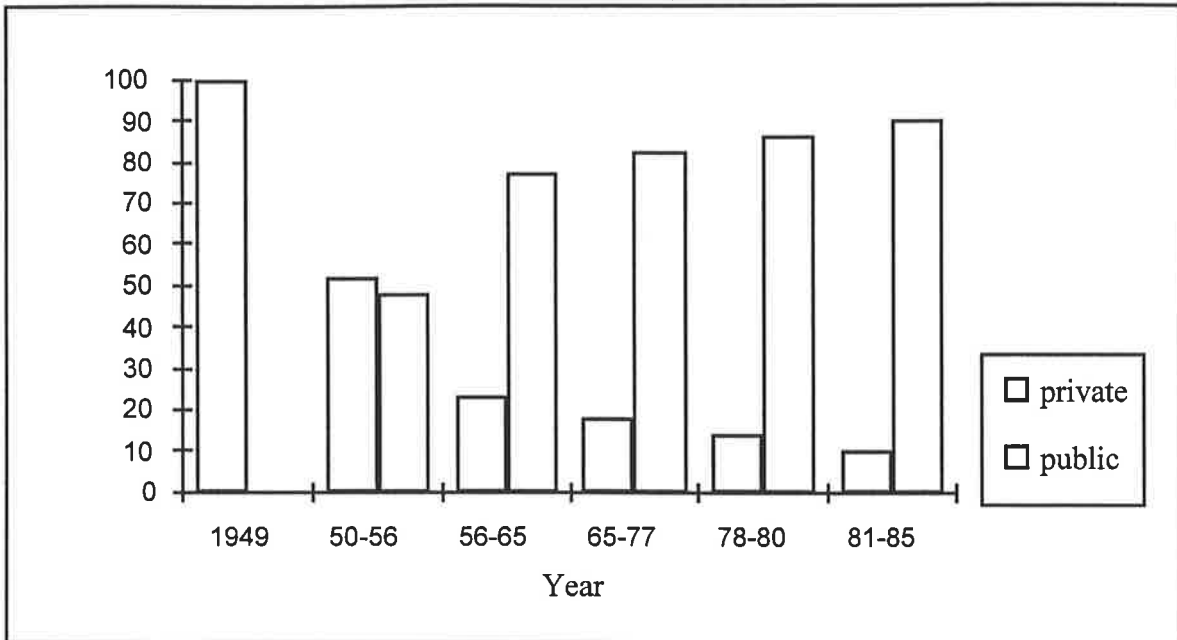
a. In 1950, Enterprise housing was included in the amount of the Housing Bureau.

b. A further 536,000 square metres (0.6 percent) of joint-venture housing projects should be added to the 1985 figure.

c. Source: Tianjin Real Estate Bureau (1994) *The History of Tianjin Real Estate Management* (p. 29).

As shown in Table 3-4, in Tianjin the 11 percent share of public housing in 1950 increased to the 91.5 percent share in 1985, while private housing decreased from 89 percent to 7.9 percent during this period. Figure 3-2 summarises the nationalisation of urban private housing in Xi'an.

Figure 3-2 Proportion of urban housing ownership in Xi'an
1949-1985 (%)



Source: Data comes from Table 4 of "Housing floor space and ownership changes in Xi'an: 1949-1985" (Wang Yaping, 1992, p. 128).

Figure 3-2 shows us that in 1949 urban public housing was zero, which means that 100 percent of urban housing was owned by private landlords in Xi'an, while by 1965-1977 public housing had increased to 82 percent and private housing was now only 18 percent of total urban housing stock. The statistics for the structure of urban housing ownership for the whole country are set out in Table 3-5.

Table 3-5 shows that most urban housing (about 84 percent) was under public ownership. Although there was 16 percent of private housing, most of this was housing returned to the private owners as a result of correcting mistakes of the Cultural Revolution and for owners themselves to reside in. The other finding is that the proportion of ownership by housing bureaus on behalf of the government was much less than that of units. The reason is that after the economic reforms began the government no longer considered itself as the only body that could solve the housing

problem. Therefore, it carried out decentralisation of urban housing construction. The proportion of unit-owned housing increased rapidly.

Table 3-5 Structure of Urban Housing Ownership in China 1985

Category	Amount million square metres	Proportion %
Total	4.676	100
Housing Bureau	0.421	9
Units ^a	3.517	75
Private owners	0.738	16

a. Unit housing ownership includes housing owned by the state-owned and collective-owned enterprises.

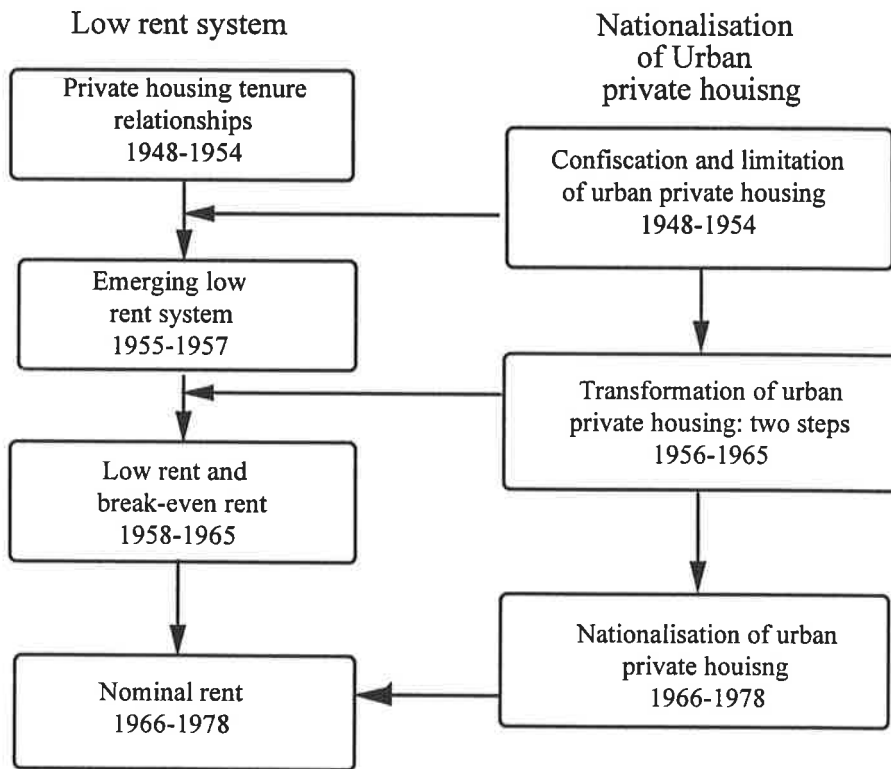
Source: First General Survey of National Urban Housing in 1985 by the Department of National Urban Construction and Environmental Conservation.

3.4 Conclusion

This chapter has explored the formation of the low-rent system and the process of urban housing nationalisation. The low rent system was formalised according to the socialist ideology whereby the government regarded housing as a consumption good and took over the responsibility for housing every urban family. Urban private housing was nationalised based on the socialist orthodoxy of public ownership. Therefore, government housing control included providing housing for urban people and transferring private housing to public ownership in order to improve social housing consumption. In fact, the low rent system and housing nationalisation were designed to meet the needs of for national political and economic situation and the government strategy for economy development at that time.

Although the low rent system and private housing nationalisation were discussed separately in this chapter, there is a very close relationship between them, and they influenced each other. Figure 3-3 shows how they developed in step with each other.

Figure 3-3 Formation of government housing control in China



In order to achieve the national economic recovery as soon as possible, the government at first had to retain private housing tenure relationships in the housing market and to limit urban private housing development. It only confiscated a small part of urban private housing (1948-1954). After this period, the government had a stable political and economic foundation. It started to implement the low-rent and low-wage system in 1955. Low-rent was required by socialist welfare orthodoxy. Actually, however, the housing industry couldn't get enough money from rent to develop housing production. Housing construction depended on government subsidies and investment in the housing sector. Therefore, housing supply was not based on demand for housing in the housing market, but was decided by government

planning. On the other hand, low wages limited housing consumption. Demand for housing didn't depend on consumers' income and preferences, but depended on government planning. So, the government controlled both supply and demand for urban housing through the low-rent and low-wage system.

After the start of the low rent system in 1955, urban housing shortages appeared, as the development of heavy industry accelerated. The government carried out the transformation of urban private housing to increase the public housing stock to remedy urban housing shortages in 1956 (see Figure 3-3). This point was reflected in all of the policies for the transformation of urban private housing. Due to less investment in housing causing less housing supply, nationalisation of urban private housing was the easiest method to solve urban housing problems. Therefore, in 1966 all urban private housing was comprehensively nationalised.

The reasons for the nationalisation of urban private housing were to remove inequalities of housing consumption between the private housing owners and tenants, and to improve the living standards of urban people. However, the low rent system caused new inequalities in urban housing consumption from the start of the low rent system in 1956 until 1978. The more public housing was provided through nationalisation of urban private housing, the more the subsidy burden on government expenditure grew. There are, however, several other determinants of urban housing problems in China. These include low investment, the fast natural growth rate of the urban population, and the administrative distribution in urban housing. These will be examined in the following chapters.

Chapter 4 The Determinants of Urban Housing Shortages in China

4.1 Introduction

Housing problems are common in developing countries, and this is especially the case in China with a population of over one billion. What caused housing shortages in urban areas in China? What were the main determinants of the housing shortages under the centrally planned economic system? Although some research has been done on factors affecting China's urban housing situation, most attention has been paid to housing reform. However, I believe that if the main determinants of the housing shortages in China's urban areas are not clarified, research on housing system reform cannot reach any proper conclusion.

The purpose of this chapter is to examine the main determinants of the housing shortage in China and to provide the basis for the evaluation of the result of the housing system reform. This chapter explores why there was a housing crisis under the centrally planned economic system in cities before the reform of the economic system (from 1949 to 1979), and why there is still a housing shortage in cities more than 10 years after the beginning of the housing system reform (1980-1995). In this chapter, I focus on analysing the economic determinants of the housing situation in China, and I do not include other factors such as topography and climate, which may affect the housing situation in different areas.

Because China is a socialist country, it has a different economic system from market economies. So, reasons for its housing shortage are different from those in market economies. They include such things as the strategies for economic development, the low-wage and low-rent system, the growth of the urban population and the administrative distribution of urban housing.

Two kinds of housing shortages are investigated in this chapter. One is the absolute housing shortage caused by economic policies and the fast growth of the population in urban areas. Due to underinvestment in housing construction, the low-rent system and the fast growth of urban populations, the aggregate supply of urban housing could not match aggregate demand for housing. This shortage meant that the average urban residents' living situation deteriorated. We call this an absolute urban housing shortage. The other is what is called here the relative housing shortage caused by inequalities of urban housing distribution. In China, like other socialist countries, an administrative distribution of urban housing was adopted. The system did not equalise allocation of housing. This enabled some persons to gain privileged access to more housing than they needed. The gap of urban housing consumption between the well off and the poor was great. This resulted in a relative urban housing shortage rather than an aggregate supply shortage of urban housing. These two kinds of housing shortages were both all caused by the socialist planned economic system.

4.2 Economic policies and absolute housing shortage

Depending on the various economic systems there are distinct determinants which affect the housing situation among different countries. Grimes states "Housing is as varied and complex as the societies it serves but certain constant features--income, city size, rate of urban growth and policy-- dominate and shape the housing situation in any given

city, "income is the most important element in shaping the housing situation" (1976, p.11).

Grime's view reflects the situation in market economy countries. The argument that I will present here is that in socialist countries, people's income does not determine their housing situation. Szelenyi claims that due to the centrally planned economic system in socialist countries, housing is perceived as a part of income redistribution and social reward (1983, p. 30). Zhang Wenxian explains this point as follows: "Salary in China today does not include a payment for housing. Therefore the distribution of housing with low rent obliterates the commodity nature of housing" (1991, p 143). Developing the points of Szelenyi and Zhang to their logical conclusion shows that income cannot determine housing situation in socialist countries. On the contrary, in these countries housing investment and construction are determined by their policies for economic development and for economic distribution.

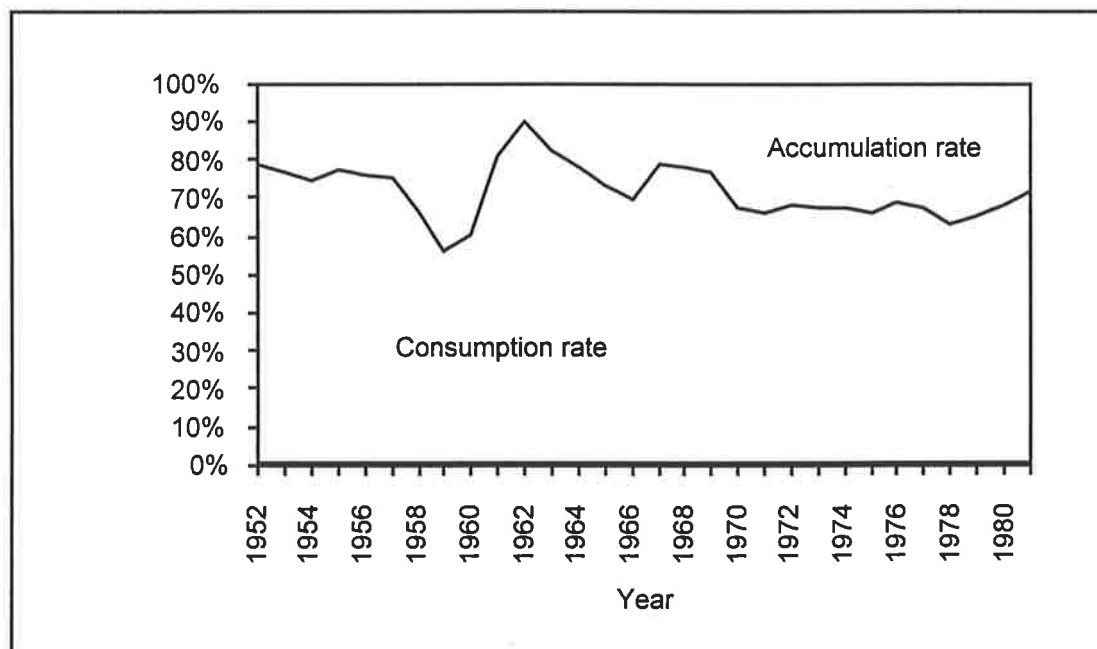
4.2.1 The ideology of economic development and consumption

All socialist countries following the Soviet model employ the centrally planned economic system. In these countries economic planning replaces the market mechanism (Ball, Harloe and Martens 1988). These countries place stress on speeding up capital acceleration in order to achieve industrialisation. Most of the national income is distributed to heavy industries. Governments allocate the bulk of resources to the productive sector, so the growth rate of capital accumulation surpasses the rate of increase of the people's living standards.

In China, during the period of the centrally planned economic system, the government applied the law of the priority growth of the producer goods department based on Marx's and Lenin's orthodox theories. According to these theories the gross social product (*shehui zongchanzhi*) was divided into the gross social product of department I

(means of production) and the gross social product of department II (means of consumption). The policy-makers believed that in order to achieve fast economic development, department I must grow more rapidly than department II. This means that most national income should be distributed into department I (producer goods) rather than department II (consumption goods). Table 4-1 shows that during the period of the centrally planned economic system capital accumulation in China was kept at a high rate to support the priority growth of producer goods. The highest capital accumulation rate was in 1959, and it accounted for 43.8 percent. During this period, the capital accumulation rate was about 30 percent in most years except the periods of economic difficulties in 1961 to 1963 in the aftermath of the Great Leap Forward and before the beginning of the Cultural Revolution. Only with the start of the economic readjustment program and reform did the capital accumulation rate begin to decrease (see: Table 4-1). Although the rate increased once again in later years, that was on the basis of a much higher rate of economic growth.

Figure 4-1 Accumulation rate in China, 1952-1981



Source: *Chinese Statistical Yearbook* 1984. p 32.

In comparison, the Chinese government adopted higher accumulation rates than other socialist countries in similar periods. For example, in the USSR the rates of accumulation to consumption averaged about 25 percent for the first ten five-year plans, with a maximum of 28.1 percent (based on five-year averages); but in China, for most years since 1949, the capital accumulation rate has been above 25 percent, with the highest five-year average (1956-1960) reaching above 33 percent in the pre-1980 period (Wang Haibo, 1981 cited in Chan Kamwing 1994, p. 60).

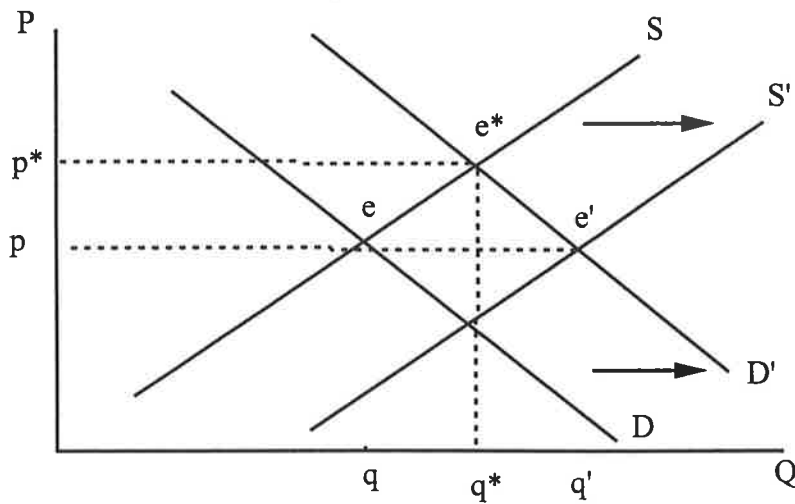
In the light of the "law of the priority growth of the producer goods", the logic of this procedure was to maximise output in order to maximise final consumption. The Chinese government employed a mode of national economic planning called heavy industry first, then light industry, and finally agriculture (*zhong, qing, nong*), which derived all economic arrangements from the planned targets for heavy industry. Although the priorities of heavy industry, light industry, and agriculture, in that order, were reversed in 1960 by defining successively the targets of agriculture, light industry and heavy industry (*nong, qing, zhong*), in fact, implementation of the new ordering was not rigorously pursued, and it proved impossible to reject the law of the priority development of department I until the end of the centrally planned economy. During this period, in order to ensure the construction of new enterprises, the replacement and modernisation of the equipment of existing enterprises was neglected, and the productivity of capital decreased. The higher the rate of the accumulation the weaker the rate of consumption. (Feuchtwang, Hussain and Pairault 1988, p. 27, and Lippoit 1987, p. 134). During that time, people's consumption was usually restricted or postponed to make room for capital accumulation.

4.2.2 The shortage of investment in urban housing - the strategy of industrialisation

According to the ideology of economic development, the Chinese government sped up industrialisation, especial heavy industry development, while housing construction was considered "non-productive" by government officials, as compared with "productive" construction projects such as factories (Chaichian, 1991, p. 129). Therefore, policy-makers viewed housing as an item of consumption and argued that the country's scarce resources should be concentrated on the construction of factories and office buildings (Kim, 1990, p. 105). Kirkby's study in 1987 (cited in Chaichian, 1991) states "This means that investment in productive construction will yield some return, whereas investment in housing projects is simply a drain on the national budget".

In the light of the experiences of economic growth in market economies, housing construction should increase with industrial development. Although some market-oriented countries have been, and still are, confronted with housing problems, the general housing situation is not very serious. The reason is that a strong demand for urban housing exists. Therefore, capital for dwelling construction will flow to housing investment. Rapid industrialisation and urbanisation in those countries is always accompanied by booms in housing investment (Chao Kang, 1966, p. 388). Figure 4-2 shows how the demand for and supply of urban housing are adjusted to change in a free market.

Figure 4-2 The impact of housing supply in a free market



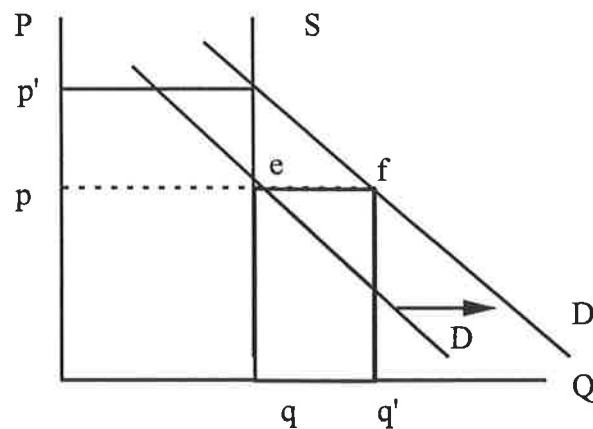
In the case of an increase in demand for housing from D to D' with the supply curve unchanged, this leads to a higher price p^* . This stimulates an increase in housing output from q to q^* . At this time the profit on investment in housing is more than in other industries so capital flows into the housing construction sector. The higher profit attracts more competitors into the sector, and there is an increase in supply from q^* to q' so that the supply curve shifts from S to S', where the new equilibrium level e' occurs.

However, this is not the case in the planned economies. The relative size of the housing sector in socialist economies tends to be smaller because socialist economies have significantly underinvested in housing during periods of forced heavy industrialisation (Renaud, 1991 p. 29). In China, there was no means of guaranteeing sufficient flows of capital and construction materials to the housing industry, because housing investment was not included directly in planning by the central government. Nor was there any practical planning for the development of the housing industry. Moreover, since housing construction was controlled under the central government, investment in urban housing typically fluctuated as investment in productive construction rose and fell. Although the demand for housing in urban areas increased, the supply of urban housing depended on national economic planning and the view of housing consumption which policy-makers

had. Figure 4-3 shows us that, with a vertical supply curve, the quantity supplied will not vary in response to an increase in price p' . So an increase in demand from D to D' will not change the quantity supplied. In China the government imposed a price ceiling and a limit on the quantity of urban housing. As a result, an urban housing shortage ($q - q'$) always exists due to the operation of the central planned economy and underinvestment in urban housing.

China was not the only country in the world that sacrificed the people's' housing consumption to accelerate industrialisation. As the comparative study of the two housing models discussed in the Chapter 2 shows, the USSR and the Eastern European countries implemented the same policy for urban housing investment under the planned economic system.

Figure 4-3 An increase in demand with fixed supply



Despite the high rate of accumulation in China, the amount of investment devoted to the "non-productive" sector, such as housing, was very low. In general, average housing investment in market economies ranges from 15 percent to 30 percent of annual investment; that is to say, 2.5 to 7 percent of annual output (GDP) in a national economy (Renaud 1991, p. 17). However, the Table 4-1 shows that in China most capital was invested in industrial sectors, while housing construction known as the

"non-productive sector", accounted for smaller and a smaller proportion of total annual investment.

The low rate of investment determined the volume of housing. During the 1950-1978 period, the productive investment for capital construction accounted for over 80 percent of total investment a year. At the same time the government invested very little money in building and maintaining housing. During this period, the capital for state-ownership housing construction made up an average of less than six percent of total investment a year.

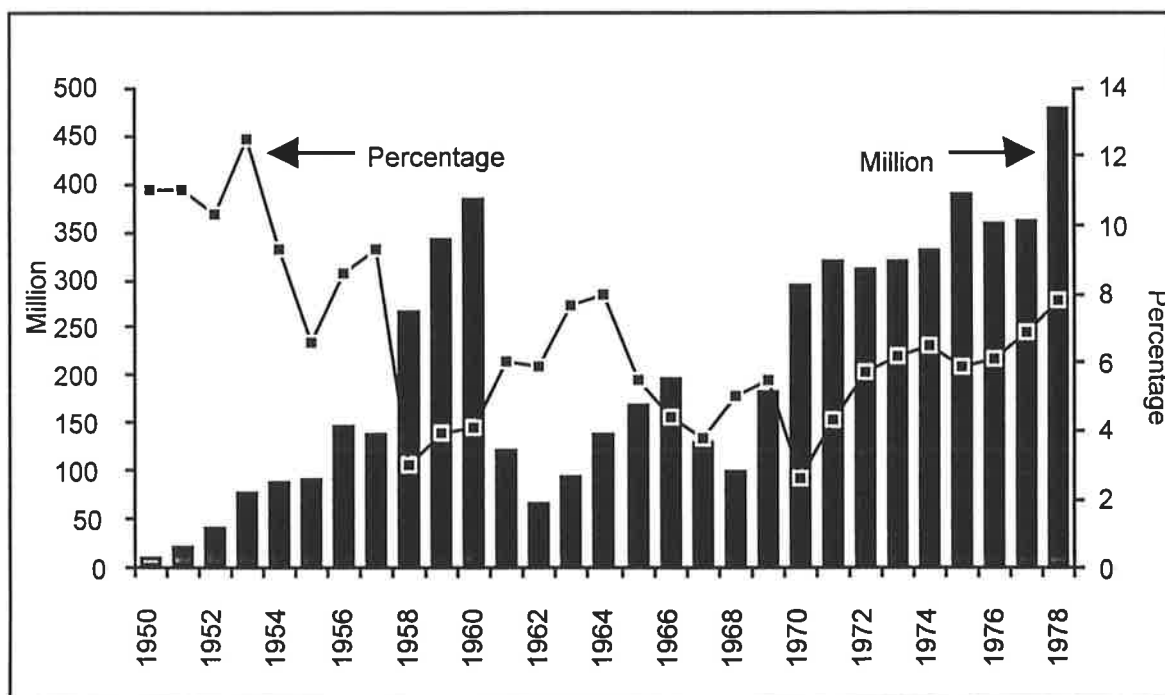
Table 4-1 Housing investment and capital construction investment 1950-1978

Year	Capital Construction Investment (billion)	Housing Investment (billion)	Year	Capital Construction Investment (billion)	Housing Investment (billion)
1950	11.34	1.25	1965	170.89	9.43
1951	23.46	3.21	1966	199.42	8.77
1952	43.56	4.48	1967	130.52	4.96
1953	80.01	9.47	1968	101.43	5.21
1954	90.62	8.44	1969	185.65	10.21
1955	93.02	6.16	1970	294.99	7.62
1956	148.02	12.74	1971	321.26	13.71
1957	138.92	12.84	1972	312.79	17.97
1958	266.96	8.10	1973	321.26	19.85
1959	344.65	13.74	1974	333.01	21.55
1960	384.07	15.70	1975	391.86	22.94
1961	123.34	7.43	1976	359.52	28.16
1962	67.72	3.16	1977	361.41	25.06
1963	94.16	7.28	1978	479.55	37.54
1964	138.69	11.16	1979	500.00	73.79

Source: *Chinese Economic Yearbook 1983-1985* and *Chinese Statistics Yearbook 1990* cited in Cai Derong, 1991.

In the meantime, in the United States the investment for housing amounted to 22 percent of the total investment in capital construction, in Japan 17.9 percent and in India 15-20 percent. Figure 4-4 shows us that in China, capital construction investment continued to increase and the proportion of investment in urban housing fluctuated and declined. This clearly demonstrates that the Chinese economic development strategy placed stress on speeding industrialisation at the expense of consumption, especially urban housing. The proportion of investment in urban housing was only 3 percent in 1958, 2.6 percent in 1970 and 6.1 percent in 1976, 5 percent less than the 11 percent in 1950.

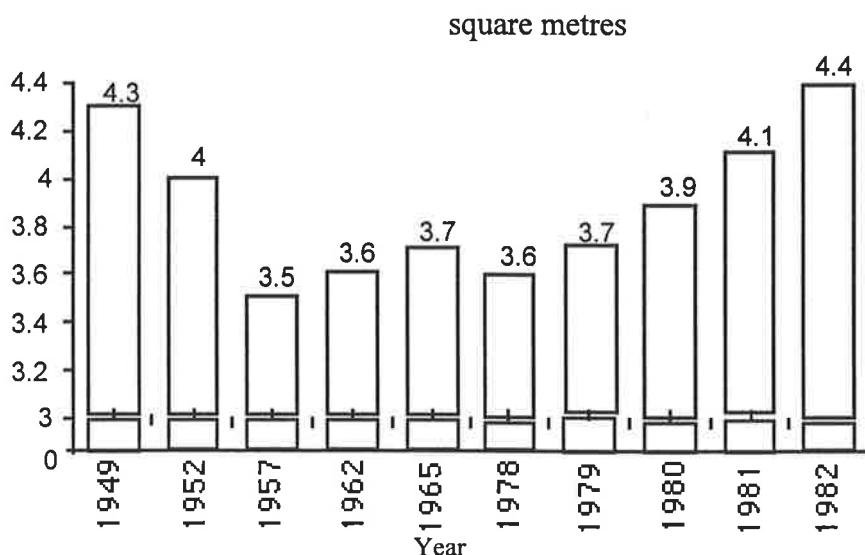
Figure 4-4 Investment in urban housing as a proportion of capital construction investment 1950 -1978



Sources: Cai Derong 1991, *Zhongguo Cheng Zhen Zhu Fang* (China's Housing in Cities and Towns). Beijing: Zhongguo Tongji Chubanshe (China Statistics Publishing House), p. 91.

Due to the high rate of capital accumulation and the low investment in housing construction, and the cap an housing prices, total housing demand exceeded total housing supply. This is the reason why the supply of housing has not increased (Chao Zhenling, Hao Shouyi and Yuan Shiming, 1992 and Lalkaka, 1984). Figure 4-5 shows that the living space per capita for urban population decreased during 1949 to 1982.

Figure 4-5 Urban Living Space Per Capita (selected years)



Note: Living space per capita is defined as the area of the bedrooms because a lot of houses in China do not have drawing rooms, closets and other usage spaces, and households have to share a kitchen and toilet. It is calculated according to the registered population in cities and is the measure used in Chinese Statistical Yearbooks.

Source: Cai Derong 1991, *Zhongguo Cheng Zhen Zhu Fang* (China's Housing in Cities and Towns). Beijing: Zhongguo Tongji Chubanshe (China Statistics Publishing House), p. 10. and *Chinese Statistical Yearbook* 1990, p. 324.

In 1978 the average living space per capita in urban areas was 3.6 square metres. This figure was lower than the 4.5 square metres of 1952, 26 years before. There was a serious housing crisis. The above discussion shows that in centrally planned economic systems income does not determine the housing situation. The policies for economic development determined the housing situation and resulted in a housing shortage in China.

4.3 The urban population and absolute housing shortage

The fast growth of urban population is another element which determines the urban housing situation. The following discussion first shows that the urban population increase was not matched by a growth in housing supply in China under the centrally planned economy system. Secondly, it examines the fact that due to China's anti-urbanisation policies, the growth in urban housing demand was mainly caused by the natural growth of urban population rather than net rural to urban migration.

4.3.1 The growth rate of urban population and the urban housing situation

The growth rate of urban population is another important factor determining the urban housing situation. Twenty years ago, the United Nations estimated the growth rate of the urban population in some developing regions (Africa, Asia and Latin America). The UN estimation was that from 1960 to 1980 the total urban population in these regions would increase by 4.2 times, and from 1980 to the year 2000, by 3.8 times. By that time there would be 2,118 million people in cities in these regions. The rapid growth of the urban population is thus a great pressure on housing supply (Cernea and von-Einsiedel, 1989, p. 88-106, and Binsham and Blair, 1984). Grimes states that "income, city size, rate of urban growth and policy are determinants of the housing situation" (1976, p.10). He considers the growth rate of the urban population to be one of the critical factors determining the housing situation and he argues:

The rate of urban growth is one of important elements in the housing situation and one that intensifies the problems created by size. Many cities in developing countries have grown faster in the last twenty-five years than at any previous time in their history. In most of these cities urban planning and infrastructure (road, water supply, sewerage, electricity, schools, healthy clinics, and the like)

have lagged behind city growth. Vast areas of unserved urban sprawl are often the result (1976, p. 11)

I agree with this view that city size and the rate of urban growth are two other important determinants of the urban housing situation in a market economy. The evidence shows that no matter where it is, in developing or developed countries, if the area and the volume of housing supply are given, the growth rate of population will determine the average living space and basic living condition of the urban residents. Research on the relationship between the growth of the urban population and the housing provision shows that even though average income is high in some big cities such as New York, Tokyo, and London in developed countries (Angel, 1992 and Anderson, 1993), and Shanghai, Calcutta, and Manlia in developing countries, there still are housing shortages for the residents (Conroy, 1987; Ball, 1988; and Cernea, 1989). This is due to the fact that the growth rate of population is faster than the city's expansion of housing supply.⁴

The Chinese urban population increased rapidly from 1949 to 1978. Compared with the urban population in 1949, more than three times the people lived in urban areas in 1978 (see Table 4-2) and most of them relied on the public housing supply for their residences.

In the case of China, Lalkaka claims "one reason for China's housing crisis is very simply that population has grown faster than residential floor space...The absolute size of China's urban population is very large"(1984, pp. 64-73). Cai Derong reports that

⁴It is sure that new household formation increases demand for urban housing. However, there was not official data to show how many new households were formatted during the period of the centrally planned economy, and due to the Chinese traditional culture some new couples still lived with their parents after they married. Therefore, we focus on the influence of urban population growth on urban housing supply.

During the development period of our industries, the growth rate of population in the cities and towns was very fast. In 1949 there were only 57 million people in the cities and towns. By 1989, the population in the cities and towns has grown to 212 millions, increasing by 154.4 millions.(1991, p 31)

Table 4-2 National and urban populations 1949-1978

unit: million					
Year	National	Urban	Year	National	Urban
1949	541.67	57.65	1964	704.99	129.50
1950	551.96	61.69	1965	725.38	130.45
1951	563.00	66.32	1966	745.42	133.13
1952	574.82	71.63	1967	763.68	135.48
1953	587.96	78.26	1968	785.34	138.38
1954	602.66	82.49	1969	806.71	141.17
1955	614.65	82.85	1970	829.92	144.24
1956	628.28	91.85	1971	852.28	147.11
1957	646.53	99.49	1972	871.77	149.35
1958	659.94	107.21	1973	892.11	153.45
1959	672.07	123.71	1974	908.59	155.95
1960	662.07	130.73	1975	924.20	160.30
1961	658.59	127.07	1976	937.17	163.41
1962	672.95	116.59	1977	949.74	166.69
1963	691.72	116.46	1978	962.59	172.45

Source: *Chinese Statistical Yearbook 1991*, p. 654.

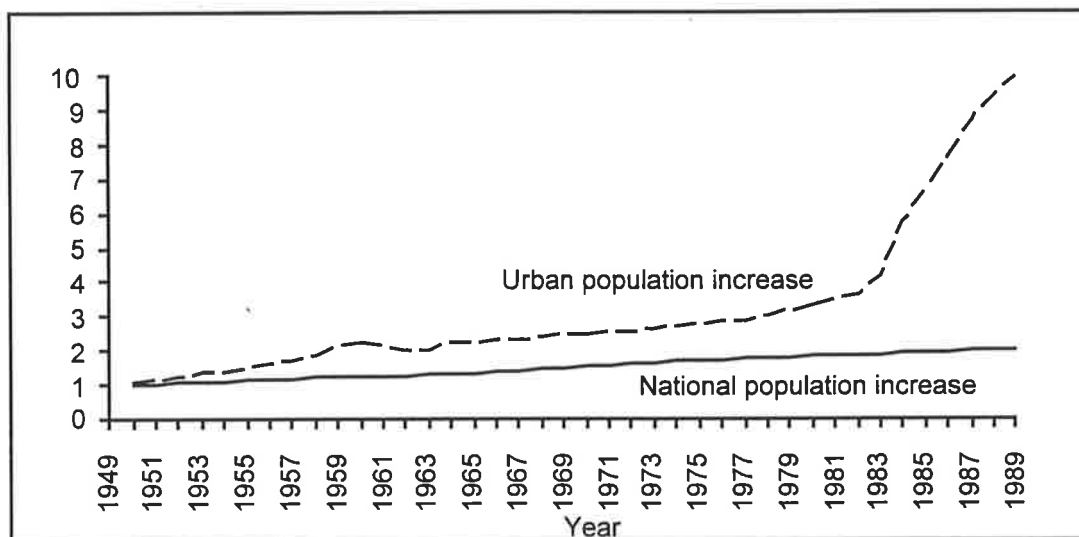
In the meantime, the number of cities and towns doubled from 5,568 in 1953 to 12,391 in 1990 (Chan Kamwing, 1994, p. 24). These facts show that the rapid increase of population placed great pressure on the housing supply. Kojima also underlines the housing crisis:

China suffers from a severe housing problem....There has been a widening gap between the increasing urban population and the housing stock since 1957....

About three million couples reportedly cannot get married due to difficulty in finding housing. In Shanghai and other cities, two married couples sometimes live in a single room. Beijing has many old single-story houses of the so-called *siheyuan*, characterised by courtyards. These courtyard are now filled with shacks (1987, p 34).

The trend of urban population growth is presented in Figure 4-5 The proportion of urban population increase is faster than that of the national population increase

Figure 4-6 Population increase at national and urban levels
1949 -1989 (percent)



Note: In 1984, urban areas in China were redefined. The urban population in the statistics increased rapidly. However, compared with the proportion of national population increase before 1984, the trend of rapid growth of urban population before this year was still very clear.

Source: Table 4-2 and *Chinese Statistical Yearbook*, 1991, p. 654..


As previously noted, given this urban housing situation, the per capita living space in cities and towns decreased from the 4.5 square metres in 1949 to 3.6 square metres in the late 1970s, declining by about 20 percent. Ma, Laurence and Hantan state that urban

population growth in China, as in other developing countries, has created serious bottlenecks in the nation's urban housing supply (1982, p. 227).

According to these views, the growth rate of the urban population is another determinant of the housing situation. If people do not analyse the growth rate of the urban population, they cannot draw reliable conclusions about urban housing issues. However, in China there are some special characteristics of the urban population increase which affected the urban housing situation during the period of the centrally planned economy.

4.3.2 Special characteristics of urbanisation and growth rate of urban population in China

In general terms, urbanisation means an increase in the proportion of a nation's population living in urban areas. Chan Kamwing argues that urbanisation - taken to mean the concentration of population in urban centres- has accompanied economic development in many countries during their early stages of industrialisation (1994, p. 1). The process of economic development has shown that the growth of urban population through migration is a result of industrialisation. Many studies have found that the patterns of urbanisation in developing countries are similar to those seen in today's industrialised countries at earlier stages of their development (Wu, Harry X, 1994, p. 669). However, in recent years, research on issues of Chinese urbanisation and rural to urban migration has found that China's post 1949 pattern of urban population growth appeared to be quite different (Buck, 1981; Kojima, 1987; Wu, Hurry X 1994 and Chan Kamwing, 1994). This section explores the fact that the Chinese government strictly controlled the growth of the urban population in order to reduce the investment in housing and the demand for housing in urban areas



In China urbanisation and industrialisation during the period 1949-1976 was not always matched by the growth rate of the urban population. This period can be divided into two phases, the first of which was the 1950s. Basically, during this early phase the urban population increase followed the same pattern as in other developing countries. There was lot of net rural-to-urban migration into cities, and more opportunities for employment were available for migrants. The other phase was the 1960s and 1970s. During these two decades, the Chinese government adopted "anti-urbanisation" policies. During this period, the main characteristic of the urban population increase was natural growth. Therefore, the shortage of urban housing determined by the growth rate of the urban population mainly resulted from the natural growth of the urban population rather than rural-to-urban migration. The Chinese urbanisation trends are discussed below.

Fast growth of rural-to-urban migration and urbanisation 1949-1960

This period includes the economic recovery in the Rehabilitation Period (1950-1952) and the phase of rapid industrialisation under the First Five-year Plan (1953-1957). Both high urban rates of natural growth and high rates of net urban migration were the reasons for the rapid rise in urban population in this period. During the First Five-year Plan period, due to the launching of construction projects, millions of rural workers were employed by state industrial enterprises all over the country. At that time, all the new construction projects for industry were distributed in some 120 cities, and a majority of the above average projects were clustered in 18 cities. In Xi'an, for example, 42 industrial enterprises, 14 higher education institutes and 22 middle schools or vocational schools were built during these five years (Chao Kang, 1966, p. 383). Chaichian points out that as a result, nearly 3 percent of Chinese people were crowded in the three municipalities of Beijing, Shanghai and Tianjin (1991, p. 128).

In this period, the average growth rate of urban population was 7.2 per cent a year, more than twice the natural urban population increase (about 3 per cent); and the growth rate

of the urban population was even higher than the national average (Chan Kamwing, 1994 and Chao Kang, 1966). The flow of rural-to-urban migration reached such an alarming proportion that the central government had to introduce a series of regulations in order to restrict the "blind flow". In December 1957 a household registration system and employment or study permit were implemented (Zhang Qingwu, 1989 cited in Chan Kamwing, 1994, p.37)

During the period of the Great Leap Forward, 1958-1960, a huge level of rural to urban migration occurred. Many of the established migration control regulations were abolished when massive construction was started, and rural regions were to be industrialised all over the country. At that time, Mao Zedong and other Chinese leaders carried out massive internal purges of outspoken senior party officials and exiled tens of thousands of intellectuals to the countryside. The goal of industrialisation was to catch up with capitalist countries like Great Britain within five years and the United State within ten years. This campaign incurred a remarkable, explosive urban inflow. The government's all-out mobilisation of popular enthusiasm to accelerate industrialisation, particularly in iron and steel production, led to a dramatic increase in industrial employment in both state enterprises and hundreds of thousands of small industrial workshops all over the country almost overnight (Lardy, 1987 and Chan Kamwing, 1994).

Due to the influx of rural peasants, the urban population increased by approximately 20 million (Kojima 1987 p. 20). According to the official statistics, China's urbanisation level increased from 16.2 percent of total national population in 1958 to 19.7 percent in 1960 (*Chinese Statistical Yearbook*, 1991).

Anti-urbanisation and the natural growth of the urban population 1960-1978

The experience of urban population growth during the period of the 1960s and the 1970s (before 1978) contrasted sharply with the tremendous net rural-to-urban migration in the 1950s. During these two decades there was a slow and even stagnant growth of the urban population.

With the Great Leap Forward collapse and the natural calamities, which generated nationwide famine, in the early 1960s the government achieved net urban outflow, arguing that this was necessary because of labour shortages in agriculture sector. About 18 million urban workers and 6 million urban dwellers, were forced to return to their home villages during the period 1961-1963. In fact, this urban outflow had two aims: one was to relieve the burden of grain production for urban consumption imposed on the peasants; the other was to reduce the pressure of urban unemployment caused by the economic depression (Chen Yun, 1961 and Zhao Yinqing, 1988 cited in Chan Kamwing, 1994, p. 39).

In order to reduce urban consumption such as housing, the monthly quota of food grain for an individual and the clothing coupons, the government gave a new official definition of urban population to limit the total numbers of formal urban residents. During the period 1961-1963 the number of urban residents resettled from the cities was roughly equal to the number of urban entrants in 1958-1960. The country experienced a sustained decrease in urban population size for three years from 1961 to 1963 and the urban population level in 1963 reverted to about 17 percent, the level before the Great Leap Forward (Chao Kang, 1966; Lai On-kwok and Lai, Ting Kwok, 1991 and Wu, Hurry X, 1994).

From 1966 to 1977 during the Cultural Revolution, there were two outflows. One was the *shangshan xiexiang* ('up to the mountains and down to the villages'), which involved

the urban youth. The other was the *xiafang* (rustication or sending down) involving cadres and intellectuals. Most of the latter were sent to May 7th cadre schools for ideological reform to be achieved through involvement in agricultural production. Therefore, the urban population grew at a rate slightly below that of the national population, resulting in a small decline in the urban percentage during this period. The Shanghai experience shows that one million inhabitants a year were sent to countryside. Figures released in February 1979 put the figure of educated youth who were resettled between 1968 and 1978 at 17 million over the country as a whole (Buck, 1981, p. 135). Table 4-3 shows us that rustication of urban youth was a sustained means of decreasing urban population.

Table 4-3 Migratory flows generated by rustication of urban youth
1962-1979

Year	Rusticated Youth	Returned Youth	unit: thousand
			Net Flows to Countryside
1962-66	1,293		
1967-68	1,997		
1969	2,674		
1970	1,064	4,014*	5,332**
1971	748		
1972	674		
1973	896		
1974	1,725	604	1,221
1975	2,369	1,398	971
1976	1,880	1,353	527
1977	1,717	1,030	687
1978	481	2,553	-2,072
1979	248	3,954	-3,706
Total	17,766	14,906	2,860

Note: * is the total amount of returned youth and ** is the net flow to countryside during 1962 - 1973

Source: *State Statistical Bureau* (1987, pp. 110-111) cited in Chan Kamwing, 1994.

In the 1960s and the 1970s, although there was some rural-to-urban migration, this was recruited as "temporary or contract work-people". They were not officially regarded as "urban" residents entitled to urban benefits and did not have urban household registration. Such people were only cheap labour and could not share the benefits of the registered urban population.

The natural growth of urban population and the housing shortage

The above discussion shows that the Chinese government adopted two kinds of urban development strategies in different decades. In the 1950s, net inward migration played a critical role in the growth of urban populations. However, they were forced to return to their own villages by the government after the Great Leap Forward collapsed. In the 1960s and the 1970s anti-urbanisation policies were carried out in order to reduce the pressure on urban consumption and to make room for realising Chinese-style industrialisation.

In China, the government restricted urbanisation because of its economic development policies during the period of the centrally planned economic system. Policy-makers thought that urbanisation was costly, because migrants' consumption levels rose relative to their previous (rural) level. Moreover, the urban population often needed a much higher per capita investment in infrastructure facilities. Public goods like housing, transport, garbage and sewage disposal, were expensive in urban agglomerations but cheap or not required in rural areas (Ofer, 1976; Linn, 1982 and Chan Kamwing, 1994). In the meantime, gaps in wages, economic opportunity, education and other benefits existed between the urban and rural areas. These reasons stimulated peasants to move out of the countryside to cities or towns in order to gain the benefits in urban areas. On the government side, policy makers kept the urban population as small as possible. Therefore, the government reduced the numbers of the urban population by redefining urban administrative areas (cities and towns) in 1964. Table 4-4 shows us the numbers

changed at that time. The number of cities and towns were reduced from 4,637 in 1961 to 3,046 in 1964, 1,591 fewer in total, with a reduction of 39 cities and 1,552 towns. Moreover, the numbers in 1976, after 15 years, were less than that in 1961. That means that the government was limiting urbanisation deliberately through redefining or shrinking urban areas and cutting the numbers of cities and towns in order to reduce government budgets and to relieve the cost of urban consumption. After economic reform started and urban areas were redefined in 1984, Chinese urbanisation sped up again (see: Table 4-4).

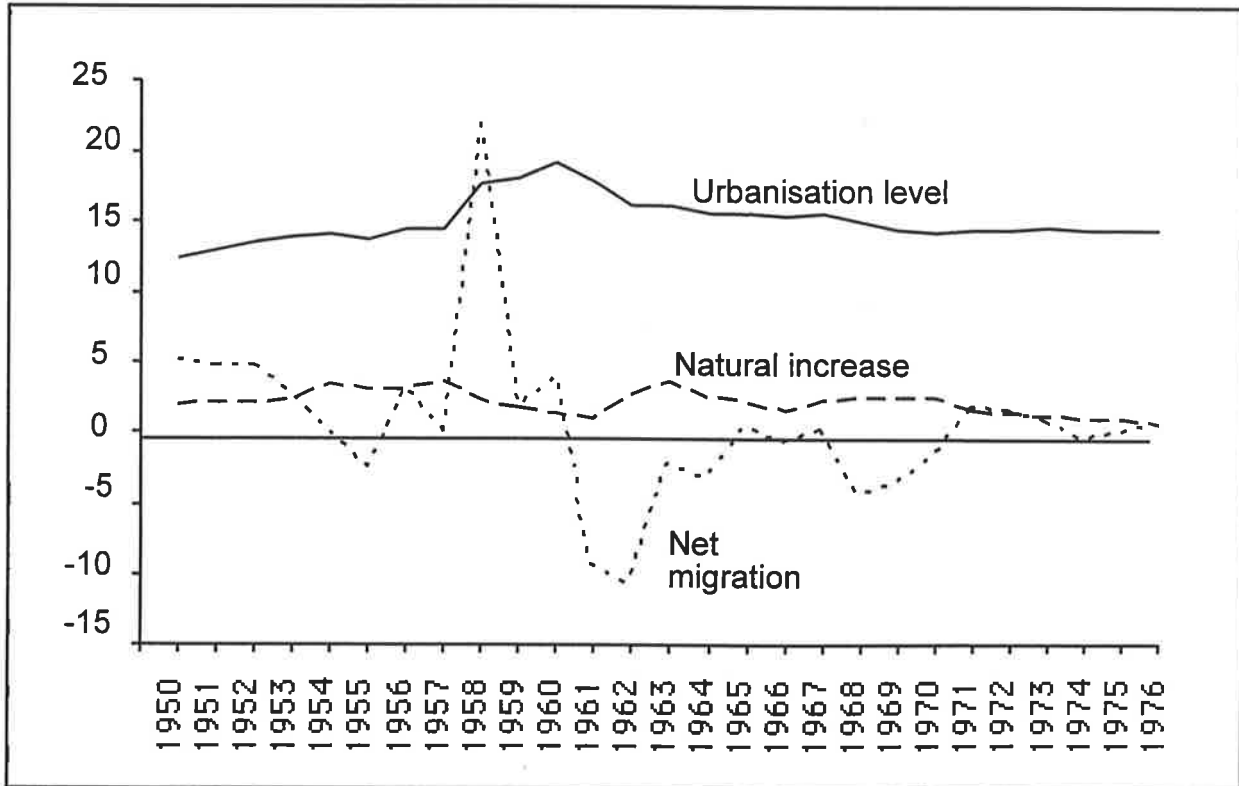
Table 4-4 Number of official designated urban places
(selected year)

Year	Cities	Towns	Total
1953	166	5,402	5,568
1956	175	3,672	3,847
1961	208	4,429	4,637
1964	169	2,877	3,046
1970	176	na	na
1976	178	3,261	3,448
1978	191	2,850	3,041
1980	217	2,874	3,091
1981	229	2,845	3,074
1982	239	2,819	3,058
1983	271	2,781	3,052
1984	295	6,211	6,506
1985	324	7,511	7,835
1986	347	8,464	8,811
1987	381	9,121	9,502
1988	432	8,614	9,046
1989	446	9,008	9,534
1990	456	11,935	12,391

Source: CASS (1990, pp. 300 and 302); Chan and Xu (1985 Table 2); State Council (1991, pp. 33-5) cited in Chan Kanwing, 1994, p. 27.

Other research also helps to clarify that natural growth of the urban population was one of reasons for housing demand growth. Some researchers have estimated the trend of annual changes in total and natural growth, and the net migration of China's total urban population (Wu, Harry X 1994; Chan, Kamwing 1994, and Wang Jiye and Hull 1991). According to Wu's estimation, during the 1960s and the 1970s, the average level of total urban population decreased (see Figure 4-7). The annual total urban population growth was -7.82 percent in 1961 and -7.39 percent in 1962. In the meantime, the annual natural growth rate of urban population increased each year, whereas the rate of annual net migration was negative in most years during the period of 1960s and 1970s. From this figure, we see very clearly that China's urbanisation level or growth of urban population was mainly the result of natural growth of the urban population, rather than net rural to urban migration.

Figure 4-7 The trend of urban population in annual natural growth, net migration and urbanisation level 1950-1976 (%)



Source: Data in Chinese Statistical Yearbook 1990, p. 89 are used to calculate the urbanisation level in Wu, Harry X. 1994 p. 689 are used to calculate the natural increase and net migration.

Based on the above discussion, we can draw the conclusion that the one of determinants for China's housing shortage is that the urban population has grown faster than residential living space. However, this is an argument that has two dimensions. On the one hand, the absolute size of China's urban population is very large; on the other hand, the rate of urbanisation is relatively low. This reflected the Chinese government's attempts to realise industrialisation without substantially increasing the rate of urbanisation.

Summary:

On the basis of the above discussion, the following conclusions can be drawn about the absolute housing shortage. Under the centrally planned economic system, economic policy is one of the crucial factors determining the housing situation rather than income. The natural growth rate of the urban population rather than rural to urban migration is also a crucial issue. In socialist countries, especially in China, the housing shortage was caused by policies for economic development and the rapid growth of the urban population. I define this kind of housing shortage as the *absolute* housing shortage in order to differentiate it from the *relative* housing shortage caused by the system of administrative redistribution in socialist countries.

4.4 The Administrative Distribution System and the Relative Housing Shortage

In the centrally planned economies governments use an administrative housing distribution system. As discussed in Chapter 2, this distribution system has a vital defect - the inequitable distribution of urban housing. I call this a relative housing shortage, due to inequitable housing distribution rather than to a lack of housing investment and construction. In this section, I will discuss the relationship between the housing shortage and the administrative distribution of housing in China.

As a component of state welfare, unequal distribution of the 'social wage' was sanctioned within a certain range: officials, technicians, and the "higher intelligentsia" were treated differently from the general population. A survey of the mid-1950s demonstrates this inequity. While 17 percent of ordinary workers' households had four or more square metres of "living space", 40 percent of white-collar workers' (including government officials) had more than this. And furthermore funding for new housing construction for people of a 'superior' level in society was considerably higher. For example, in Nanjing in the 1950s, workers received apartments at around 30 yuan per square metre for construction cost, while college professors' housing cost more than 60 yuan (Howe, 1968 cited in Kirkby, 1988, p. 228). That means that people who had different social status were given different quality housing.

Although the housing system reform has been implemented for many years, administrative distribution of urban housing is still used as the main access to urban housing for a majority of urban residents (This will be explored further in next chapter.). So, there is still inequality of urban housing distribution. In the decade from 1980 - 1989, China's central government, local governments and enterprises invested more than 250 billion yuan in housing construction, and built 1.32 billion square metres of new houses. There were 212 million people in cities in 1989. According to these figures for the population and newly built houses, the average resident in China's cities should have had 6.51 square meters of living space per capita (Cai Derong, 1991, p. 90). However, according to a survey of 960 work units in 12 provinces, at that time 2.2 per cent of families had less than 2 square meters of living space per capita and 19.9 percent had 2-4 square metres of living space. Some of them lived in simple shelters or workshops. In Shanghai, 14.46 percent had 0 - 4 square meters of living space per capita and 55.88 percent had 4.1 - 8 square meters of living space (Zhang Jianguo and Chen Li, 1989, p. 5). At the same time, 26 thousand households had more than 20 square meters of living space per capita. These data demonstrate the wide variation in the

distribution of living space. This situation cannot be explained by the economic development policies or the rapid growth of the urban population but relates to other social factors as discussed below.

4.4.1. The distribution of public housing and the types of urban public housing

Patterns of public housing distribution vary, depending on the various economic systems. In capitalist systems, some kinds of public housing are provided by the government, because some people cannot afford the rent which they have to pay for their housing. Generally, the government takes action on public housing through a market, which from the consumer's point of view is segregated into either owner occupation or rented housing. In the rented sector, the rent is intended to pay back the initial construction cost, but after the depreciation period the landlord continues to collect the rent which then becomes his profit. However, in this situation the landlord may be the government or a co-operative which represents the government to run the business, and this profit can be 'socialised', in which case that extra rent will be utilised to make payments towards new housing for other members of the society (Mathey, 1990 p.16). Therefore, the government's intervention in urban housing is a marketing behaviour to provide access, finance and tenure rather than administrative distribution.

In socialist countries, administrative distribution of public housing was chosen as the main housing consumption mode. Administrative distribution includes either investment in housing construction or direct allocation of public houses. Distribution is carried out by the central government, local governments or work units. Administrative distribution of public housing breaks the relationship between supply and demand in housing markets. Therefore, it was not possible not to establish a direct link between the construction of the individual dwelling and the rent collected from the user. Instead distribution was related to the consumer's social rank, relationship with leaders, occupation, family size, marital status and so on. In this situation, the government was

both the landlord and the employer, and the rent could be made nominal or scrapped altogether. In this case, affordability was eliminated as a mechanism in the distribution of public housing. Public housing might then be allocated according to political and social rank rather than economic factors.

Although in a market economy there is public housing allocated by the government through its intervention, the market is still the mechanism for public housing distribution because housing policies are based on housing market situations and other economic factors such as family incomes and privately-owned properties. However, in socialist countries like China, the criterion and methods for allocation at the urban housing could vary greatly, being administratively distributed through different hierarchies - the central government, local governments and work units. Many standards beyond economic factors were introduced as additional criteria for urban housing distribution among employees. In fact, administrative distribution resulted in an inequality of urban housing distribution in China. We need to understand the types of housing ownership first, and then we can clarify the inequalities of urban housing distribution in China.

In a market economy, housing is treated as a commodity item. People purchase housing not only for its physical characteristics, but also for its intangible services. School districts, quality of the neighbourhoods, interest rates, and other physical amenities are used in their decision-making process. However, in China housing was generally regulated by the government or its representative-work units. Housing ownership falls into four different categories: private individual and landlord (private owners), work unit and municipal (Housing Bureau). In 1985, public housing accounted for the majority of urban housing (about 84 percent), including work unit housing and municipal public housing (see Table 3-5 Chapter 3: Structure of urban housing ownership in China). However, in recent year, the supremacy of the *danwei* has considerably diminished.

Work unit (danwei) housing:

In China, work units including enterprises, organisations, institutes and others vary in size, resources and administrative levels. In addition to their social and political functions, work units also provide guidelines for the distribution of their available housing stocks, and the availability of housing mainly depends on the resource capacity of the individual work unit. Because work units decide who can have the housing under their control, the inequality of urban housing distribution is mainly attributed to the *danwei* system (Kim, 1990, p. 108, and Logan and Bian Yanjie, 1993, p. 561). However, in recent years, the supremacy of the *danwei* has considerably diminished.

What is the process for a *danwei* to apply to build its own housing before the ? Each year, a *danwei* has to apply to its appropriate bureau for permission to build a certain area of housing (square metres). The bureau considers the applications submitted to it from all the *danwei* under its jurisdiction and then makes recommendations to the next higher level, to the State Council or to the local government, depending on the construction size. After being notified of approval by the higher levels, the *danwei* receives a copy of the permit and can select the construction company to conduct the work. When the construction company has been selected, it uses the permit to obtain construction materials formerly from the guided-market and now from the free market. In the meantime, the *danwei* must apply for the land-use right for its housing project (Huth, 1992, cited in Kilmartin and Singh 1992, p. 86). The process of applying for housing construction is in practice more difficult than it is described here because the work unit has to deal with relationships beyond the housing project. So approving the application usually needs two or three years, or even longer. It is during this process that privilege, corruption and nepotism in housing allocation appears, as will be discussed below.

State-owned housing

Local government may also construct and own apartments and other types of housing units, which can be invested in by the central government or by local government. These houses are managed by municipal housing bureaus on behalf of local governments. About 15-20 percent of urban housing falls into this category. This housing is allocated among people who are not affiliated with a *danwei* or whose work unit cannot provide its own housing (Ma and Hanten, 1981 cited in Kim, 1990, p. 106).

For these two kinds of public housing there are inequalities of urban housing consumption. It is this inequitable distribution of housing investment and houses that results in a relative housing shortage among the different regions, units and persons of various ranks, as discussed below.

4.4.2 Inequalities of Housing Distribution

In his book *Urban Inequalities Under State Socialism* Szelenyi states:

Inequalities in administrative allocation, and inequalities arising from it, probably became inevitable when the wage policy was set. If wages are set officially to exclude the cost of housing and other public goods and services, then housing and the other goods and services must obviously be allocated to all comers including those with high incomes (1983, p 10).

I agree with Szelenyi's point. However, he only places stress on the housing distribution. Zhang Wenxian makes the same point and specially emphasises the role of rank in the pattern of inequitable housing distribution in China. He claims that: "In our society, housing is allocated according to the ranks of city people. The higher your rank, the more space and better housing you will get (1991 p. 142)". In addition to this

inequality of housing distribution I think that there are three other kinds of inequity in the distribution system.

Inequitable distribution of housing investment between various regions

Generally speaking, in China, administrative rank in the government hierarchy is a determinant of revenue extraction by the state. The higher the position in the government hierarchy, the larger the budget and the more abundant and profitable the sources of revenue. Chen Xiangming and Gao Xiaoyuan point out: "as a result, more developed and wealthier coastal cities and those with higher political status in the administrative hierarchy have had more housing investment (1993, p. 269)". Given this fact a relative housing shortage must appear between different regions.

Inequitable distribution of housing resources among units

In China, before urban housing markets were established, the majority of the urban residents can only get their living space from their work units (factory, shop university, or department office, etc). Therefore, the work unit is a vital factor which determines whether its employees can get a quality living standard. Why can some work units do better than others in urban housing distribution in a planned economy system?

Some scholars state this issue as follows: control of financial resources in a socialist system depends less on productivity than on the 'regime of bargaining' among organisations to escape taxation or gain subsidies from higher-level government jurisdictions. In this bargaining, larger firms in strategic sectors can negotiate more effectively because they have greater economic power. Further, units under the direct control of very high-level jurisdictions (like central ministries rather than municipalities) find that their superiors can afford to be more accommodating (Walder, 1992, p. 536 cited in Logan and Bian Yanjie, 1993, p. 561). As a result, housing budgets

are initiated and approved by the government administration through a top-to-bottom process. A higher-ranked work unit can receive a larger housing budget precisely because it can influence central and local governments more effectively than a lower-ranked work unit (Logan, 1993, p. 562). In this case, state-owned enterprises or government organisations are stronger than collectively-owned enterprises in 'regime-bargaining'.

Before the housing system reform, for example, Beijing employees working in the central government and enterprises and organisations under the Stated Council had over 7 square meters per capita on the average. People working at organisations, enterprises, and groups under the direct jurisdiction of Beijing had an average of over 5 square meters, while the general resident had an average 3.6 square meters. The gap between the well off and worse off was great (Kojima, 1987, p.39).

There are two kinds of inequitable distribution of housing resources among work units: one is the housing capital allocation, the other is house distribution. Firstly, the municipal government follows the administrative hierarchy. It allocates housing capital among different sectors unequally. Compared to collectively-owned enterprises, state-owned enterprises or official institutions generally find it easy to get housing investment. Some smaller units are often forgotten. Secondly, the availability of housing may well depend on the resource capacity of their work units. Because of the different capacity of housing construction among work units, some units can provide houses for their employees, some cannot (Shidlo, 1990, p. 77-80). Finally, although the employees work in the same units, the inequality of housing distribution still exists. Whether or not they can obtain housing depends on their rank in the unit, their age, the numbers in their family and other conditions.

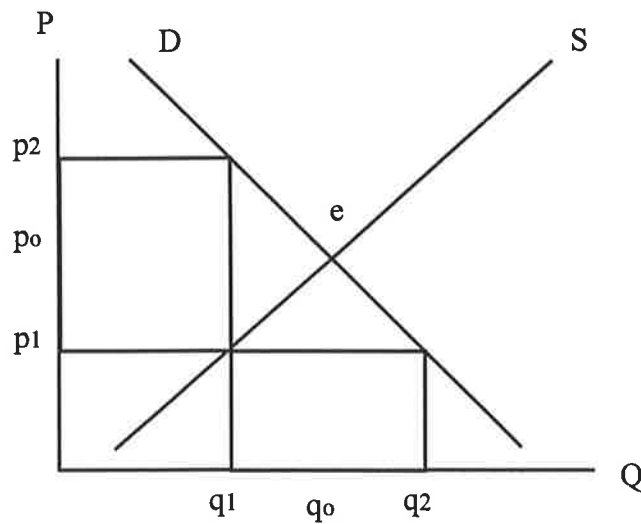
Inequality of the housing distribution caused by privilege, nepotism and corruption

In China, privilege, nepotism and corruption also lead to inequalities in urban housing distribution. Because of the urban housing shortage and administrative distribution methods, some officials use d their power to seek privileges. They occupy more housing than they need. While many people do not ven have a house in which to live. Uhalley explains the issue as follows:

Another reason for housing shortages has been the scandalous acquisition of additional or spacious accommodation by some officials for personal use and for distribution to family and friends. The shortage has led some families to occupy more than one house, making the shortage even worse (1990, p. 320).

This may also happen when husband and wife work in different units and both get a house allocation. In same case, they may rent out the second house or let relatives live in it. In fact, inequalities of urban housing distribution mainly reflect this aspect, which prevails all over the country. What drives this inequality of housing distribution? From the perspective of economics, there is a vested interest generated by the low rent and administrative distribution system, which attracts officials to seek more urban housing. Figure 4-8 demonstrates this.

Figure 4-8 Inequality of the housing distribution caused by privilege, nepotism and corruption



In the market economy, we assume, if there is a housing shortage $q_2 - q_1$ in a housing market, the housing price will rise from p_1 to p_2 . But if there is a *rent cap* for housing set at p_1 by a government, a black market is likely to occur and the housing price in the black market could be as high as p_2 . The extent of black market activities will depend on the penalties the government applies to this behaviour and how strictly they are enforced.

In a socialist country like China, the low rent is the price set for urban public housing by the government, and administrative distribution of urban housing is the sole channel for employees to have access to housing. There is a housing shortage $q_2 - q_1$. The price p_1 is fixed by the government. Therefore, $p_2 - p_1$ is the extra benefit for the officials who have privilege to seek it. Because the officials in the work units or other organisations have the right to make decisions for the allocation of housing investment, building materials and houses, and unlike in a market economy there is no strict regulation to restrain their actions, it is inevitable that this situation will generate inequalities of urban housing distribution and induce privilege, nepotism, bribery and corruption.

Chaichian explains this situation in the following way: some officials have vacant apartments prepared for their unmarried sons and daughters (and even for their grandchildren). By contrast, workers get only one additional room at the age of retirement, and some families live in a room of about 20 square meters, with two or even three generations living under one roof (1991, p. 129). Actually, various inequalities have risen in the allocation of scarce housing. Lin Zhiqun (cited in Kojima, 1987, p. 38) states the issue as follows:

People are now whispering among themselves that those with power (government officers), those with money (merchants and traders), those with materials (distributors of production goods), and those with connections get to live in a large place, while people with little power and workers in small enterprise and groups have to live in cramped housing or, in the worst cases, have nowhere to live at all. (1982, p. 40).

This situation occurred not only before the economic system reform but also at present. Some scholars have explored this "skimming" in gaining housing. There is one unique way that government officials acquire housing units for themselves. The "skimming" usually take place when a government jurisdiction grants housing construction plans, housing loans or land-use permission to its enterprises, or when it distributes housing funds to institutions controlled by its subordinate work units (Bian Yanjie, 1994, p. 194). These work units have to pay the "bill" for these officials, otherwise they cannot get access to housing resources. There are many reports of persons misusing their powers for housing purposes. It is the administrative distribution under the socialist economy that results in the privileges and corruption in the housing distribution.

4.5 Conclusion

A number of conclusions can be drawn from the above discussion. There are two kinds of housing shortage in China. First, there is the absolute housing shortage caused by the strategy of economic development, the rapid growth of the urban population and the low-rent system which has been investigated in Chapter 3.

The Chinese government applied a high rate of capital accumulation and the "law" of the priority growth of producer goods, and gave the housing sector low investment priority. In addition to this, the low rent was not sufficient for normal maintenance cost for urban housing and made the housing sector shrink. During the period of the centrally planned economy, the natural growth of the urban population rather than rural-to-urban migration, was a more important determinant of housing demand. This is contrary to the experience of other countries with industrialisation. The aggregate supply of urban housing could not match the increasing aggregate demand for urban housing. This led to the absolute shortage of urban housing in China.

Second, there is a relative housing shortage caused by the inequalities of urban housing distribution under the administrative allocation system. There are three kinds of inequalities of urban housing distribution: the inequalities of distribution of housing investment between various regions, inequitable distribution of housing resources among units and inequalities of the housing distribution caused by privilege, nepotism and corruption. This creates a large gap in urban housing consumption between the well off and worse off. Therefore, this shortage of urban housing was caused by social factors rather than economic factors.

Hence, the strategy of economic development, the low rent system, the fast growth rate of urban population and inequalities of urban housing distribution are all the determinants of the urban housing shortages. All of them are caused by the planned

economic system. Therefore, if the housing shortage is to be completely solved in socialist countries, the planned economic system and the procedure for administrative distribution must be substantially reformed. Urban housing should be treated as a commodity, and the administrative distribution system must be replaced by a housing market.

Chapter 5 Evaluation of Chinese Housing System Reform

5.1 Introduction:

As discussed in the preceding chapters, under the centrally planned economic system, the housing industry was considered as a non-commodity production sector, and there was a lack of investment in it. At the same time, urban housing consumption was treated as social welfare. The low rent system was implemented, and urban housing was allocated under a series of rigid administrative regulations. As a result, after the Cultural Revolution the average living space per capita was 3.6 square metres in urban areas, lower than the 4 square metres in 1952. Therefore, in 1978 as with other aspects of the economic system, urban China started urban housing reform.

How did the reform proceed? What was the impact of the reform? Has the reform achieved its goals? The focus of this chapter is to examine the evolution of housing reform policies and their economic results. We can analyse the housing reform after 1979 in terms of the transformation of three mechanisms, and we can divide the process into four phases. The first transformation is the shift from the system of centrally-controlled urban housing, including investment and distribution, towards multiple channels of investment in urban housing. The second is the selling of new housing as a consumption good on the open housing market, and of old housing as subsidised goods on an internal housing market in the work unit. The goal is to increase the privately-owned proportion of the total housing stock and to collect capital for housing construction. The third mechanism is raising the welfare rents gradually to the level of

commercial rent. The goal is to change the indirect subsidy into a direct subsidy and to encourage tenants to make a greater contribution to housing costs. All of these three transformations are intended to realise the commercialisation of urban housing, as well as the improvement of urban housing standards.

The four phases were: first, the decentralisation of investment in housing construction; second, the sale of newly built urban housing to establish an urban housing market; third, experiments with the low rent system reforms and the selling of the existing housing stocks in selected points in some cities; and fourth, the spread of housing reforms all over the country.

Some Chinese observers have raised objections to the current economic policies for housing reform, arguing that the policies are premature and can't achieve their goals (Lü Fuxin 1993 and Institute of Finance and Trade Economics of the Chinese Academy of Social Sciences and Institute of Public Administration, hereafter IFTE and IPA, 1996). This chapter will discuss whether the adjustments of the economic mechanisms for housing reform to date have been successful, in what ways the experiments in selected cities influenced the housing system reform in other cities, and how the housing system reform had progressed at the national level by the mid-1990s.

5.2 The formation of the basic approach to urban housing reform

With the important policy changes made during the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party in 1978, China started to place stress on four areas for modernisation (agriculture, industry, defence, and science and technology). One of the most important features of the new policies was to raise the standard of living through economic system reforms. Housing shortages in urban areas were one of the crucial issues to be solved urgently by the central government.

As early as 1980, Deng Xiaoping made a speech on housing reform, which became the guiding principle for urban housing commercialisation in China (IFTE and IPA 1996; Chen Shuping, 1993; and Yun Zhiping and Bai Yihong, 1990). Deng's main ideas can be summarised into six main points:

1. There should be a series of policies in relation to housing construction and distribution in the cities.
2. Urban residents can buy houses, and they can also build their own houses.
3. Not only can new houses be sold, but also old ones.
4. Payments can be made all at one time, or in instalments, say, over ten or fifteen years.
5. The sale of houses will have significant implications for the adjustment of rents. Rents should be adjusted in line with house prices in such a way that people think the purchase price of a house is reasonable.
6. In terms of housing construction, the joint efforts of private and public ownership, or private construction under public assistance, or permitting private individuals to rely solely on their own efforts should be encouraged (cited in Office of Leading Group of Housing System Reform under State Council 1994, p. 1; *Fanggai Qishi Lu* cited in Chen Shuping 1993, p. 3; Wang Yukun and Yang Lu 1992, p. 5; Yun Zhiping and Bai Yihong 1990, p. 31; and Kang Tianjin and Wang Meixian, 1988, p. 2).

The underlying logic for these proposals provides some important perspectives on urban housing system reform. First, urban housing for residence should be treated as a commodity which can be sold to and owned by urban residents, rather than a welfare or good provided by the government or society. Second, the rent level under the low rent system should be raised to the market level in order to encourage people to prefer to buy rather than to rent housing for living. Third, investment in urban housing could come through multiple channels, and the approach towards construction methods should be

flexible. This means that the burden of accommodating urban residents should be shared between individuals and the government.

China's urban housing reform over the past 18 years has been guided by this basic approach. With the gradual clarification of the aim and purpose of the reform through repeated debate and practice and continuous experiments in various cities, three approaches to housing reform have been implemented; these are multiple channels of urban housing investment, sale of public housing and raising rent. The following sections will discuss why these approaches toward urban housing reform were adopted and how these processes developed.

5. 3 Investment system reform - decentralisation of housing investment allocation

One of the most important goals of the economic reforms launched in 1978 was the reform of the old housing system in order to solve the housing crisis. The World Bank Report describes the urban economic and living situation as follow:

Up to 1978 urban labour compensation in China was characterised by very low and virtually static wage levels, combined with a set of in-kind benefits and the extensive use of rationing for basic goods. Most household lived in cramped public housing units and paid only nominal rents. Household savings were consequently very low. Enterprises remitted profits to the central government and received planned allocations of investment funds in return. Household and enterprise savings were, in effect, nationalised and reallocated by the central government (1992, p. 4).

Therefore, under the traditional planned economic system, it was impossible for local governments, enterprises and urban residents to provide capital and to invest in urban housing construction to improve the urban housing situation.

Prior to 1978, profit-oriented production was eliminated from the housing sector. In addition, the inadequate allocation of capital investment for the provision and maintenance of housing created a critical shortage within the housing sector. Therefore, the urban housing situation was further exacerbated by continued demand for new dwellings by the expanding urban population. The declining living standards of urban residents demanded immediate reform of housing policies.

At that time, the central government found it increasingly difficult to continue financing the burgeoning cost of new construction, and the housing shortage was the most pressing problem in most of the urban areas. However, as with other aspects of economic system reform, the urban housing reform first introduced a limited role for the market within the planned economy and characterised mainly by the decentralisation of economic planning to local governments and individual enterprises.

Due to the shortage of government funds and the inability to make large-scale housing investment, the central government reformed the system for allocation of capital investment. Various work units were given autonomy in housing investment and development through self-accumulation and self-raised funds.

At that time, decentralisation was a crucial step in the reform of the allocation of resources under the planned economy system. Before the reform, financial investment for housing was allocated from the centre as part of industrial construction funds in form of a capital grant. As already discussed in the last chapter, the emphasis on productive construction meant that housing received substantially less investment than other sectors.

In order to create increased revenue for expenditure on new urban construction, in 1978 the document, *On Strengthening Urban Construction Work*, was issued jointly by the State Council and the CCP Central Committee after the "Conference on Urban Construction Work". It required a large-scale house building programme involving the central government, local government and individual institutions and enterprises. It aimed to build more housing and reduce housing pressures. In this conference, the government reformed the local government finance system. In that year, Shenyang and Guangzhou were permitted to use 5 percent of all local income (total income after the deduction of expenditures) for urban maintenance and the development of public facilities. This special policy was extended to over 50 cities from 1979, including all provincial capitals, cities with a population of over half a million and six historical cities (the State Council, 1978 cited in Wang Yaping, 1995 p. 73). In addition, the government formulated new tax regulations in 1984, including taxes on housing, urban maintenance and construction in favour of housing investment. During the Sixth Five-Year Plan (1981-1985), housing investment exceeded 20 percent of capital construction investment (Pola, 1992, p. 15).

With the decentralisation of financial, investment and decision-making power, the state-owned enterprises and government institutions became the main investors in housing development. This led to a dramatic shift in the sources of housing investment over time. According to official statistics, in 1979, over 90 percent of all investment was financed by the "unified" budget of central-local government. However, by 1993, the central-local governments' share was reduced to 23 percent, and the state-owned enterprises and administrative units financed 60-70 percent of annual housing investments out of the retained earnings, other "extra-budgetary" funds, or depreciation allowance. The remaining 17 percent was directly financed by individuals (IFTE and IPA, 1996, p.86).

The tremendous change in housing investment from rigid highly-centralised government finance to multiple channels of housing investment contributed to the general economic system reform and led to the rapid development of the national economy. Two indices can be used to explain the rapid increase of housing investment: the proportion of housing investment in Gross National Product (GNP) and the proportion of investment in urban housing compared to capital construction investment.

According to international experiences housing investment ranges from 2.5 to 7 percent of annual national output, that is to say 15 to 30 percent of annual investment (Renaud 1991, p.17). However, after the reform China's investment in urban housing was higher than these ranges (see Table 5-1). The World Bank experts concluded that:

The impact of this decentralisation was swift in coming, and resulted in an unprecedented level of resources being allocated to housing construction. During the last decade (1980-1989), up to 8 percent of GNP and 30 percent of Gross Capital Formation was devoted to housing (with approximately 45 percent generated in urban areas). China's municipal and town governments encouraged the production of about 150 million square metres each year (or roughly 3 million units annually) by implementing a streamlined planning-approval process managed exclusively at the local level. As a result, the amount of average space available per capita in cities almost doubled between 1978 and 1990 (1992, Executive summary p.4). This level of production is also unprecedented by international standards (1992, p.3).

Table 5-1 Housing investment as a percentage of GNP:
prior to and after the start of the reform

Time Period	Percentage of GNP	Year	Percentage of GNP	Year	Percentage of GNP
1953-1959	1.33	1981	7.95	1989	8.07
1958-1962	0.90	1982	8.39	1990	8.07
1963-1965	0.82	1983	8.79	1991	7.17
1966-1970	0.49	1984	8.24	1992	8.00
1971-1975	0.89	1985	9.14	1993	8.49
1976-1978	0.87	1986	9.28	1994	7.82
1979	4.23	1987	9.36		
1980	5.95	1988	9.09		

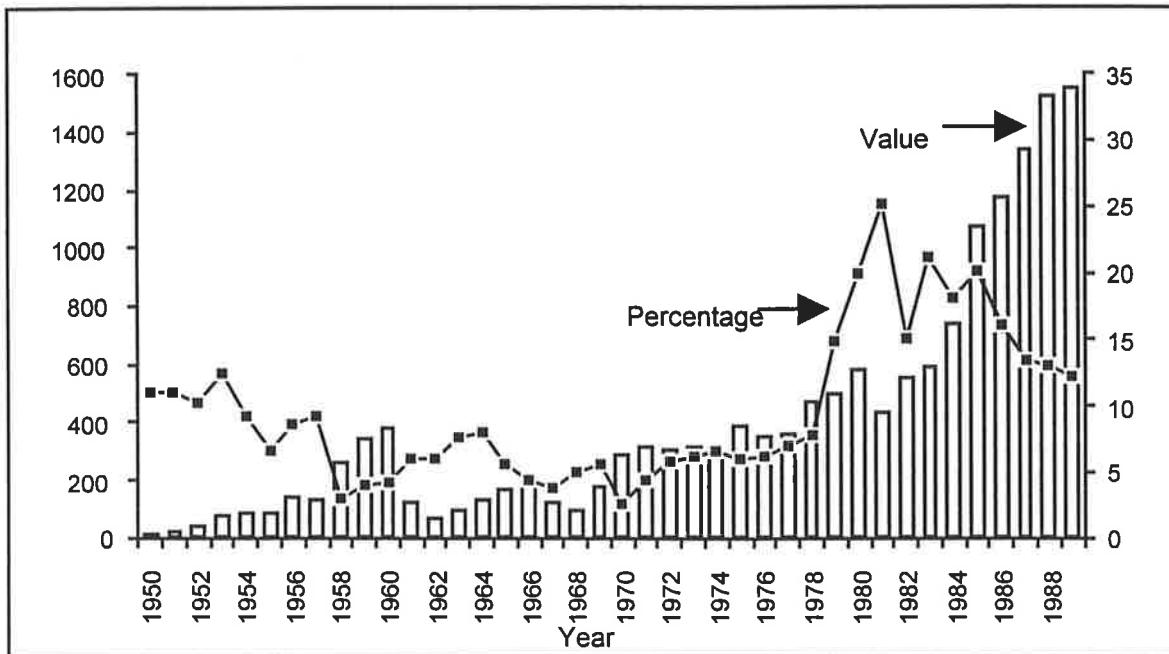
Source: IFTE and IPA (1996), *China's Housing Reform*, p. 82.

From the index of the proportion of investment in urban housing to capital construction investment, we can see that the Chinese government changed its policies towards national investment allocation. For example, in 1979 housing investment made up 14.8 percent of total basic construction investment, over 5 times more than housing investment in 1970. Since then the proportion has increased faster than in any year before the economic reform (see Figure 1), but it has fluctuated depending on government housing policy changes, and local government and enterprises' capacity for housing investment.

Although the multiple channels of housing investment sped up the growth of the urban housing stock, in the long run, the capital was not enough to meet demand and to overcome the urban housing problems. Under the traditional housing system, the more the central and local governments and work units invested in urban housing construction, the more subsidies for housing they provided. This is because individuals did not make any contribution to improving their living standards. It led policy-makers

to think about more options to obtain financial capital in order to overcome housing shortages.

Figure 5-1 Urban housing investment in capital construction
1950 - 1989



Source: *Chinese Statistical Yearbook 1990*, p. 3254.

5.4 Sale of urban public housing - establishing an urban housing market

The selling of public housing can be achieved in two ways. One is that new public housing is sold according to market value. The other is that existing public housing is sold with heavy subsidies - a preferential price or a standard price. These two kinds of urban housing prices form the dual-track housing market in China. The co-existence of these two kinds of housing markets have caused some problems during the period of housing commercialisation. The following discussion will focus on the selling of new public housing with subsidies.

Although there are many reasons why the central government wished to commercialise urban housing, the main reason was that the housing reforms should become an important part of the overall economic reform. Both savings and consumer expenditures increased after the beginning of the reforms. In fact the total savings for both urban and rural residents grew dramatically from 21.1 billion yuan in 1978 to 223.9 billion yuan in 1986, while total expenditure grew 8.1 percent annually. With the commercialisation of urban housing, the government expected to increase its capital construction funds, to decrease its housing subsidies, and to stimulate China's building industry.

In the early 1980s, the government proposed that urban workers and employees should be able to build private housing and buy their own houses. Thereafter, the government repeatedly encouraged work units to construct new housing units for their workers and asked the work units to sell them to individuals. Although only a handful of urban residents could even think about purchasing private housing in urban areas, the state was willing to share some of the total housing cost with the unit (Kim, 1990, p. 112).

In order to provide more capital to solve the housing problems, in 1980 the central government made a big step towards housing system reform - selling public urban housing to individuals. Like other aspects of the economic system reform, the commercialisation of urban housing, that is, the sale of public housing to urban residents was initially started on a small experimental basis and without great propaganda in selected localities. The first trials of the reform were in the period from 1980 to 1985 and in a few cities.

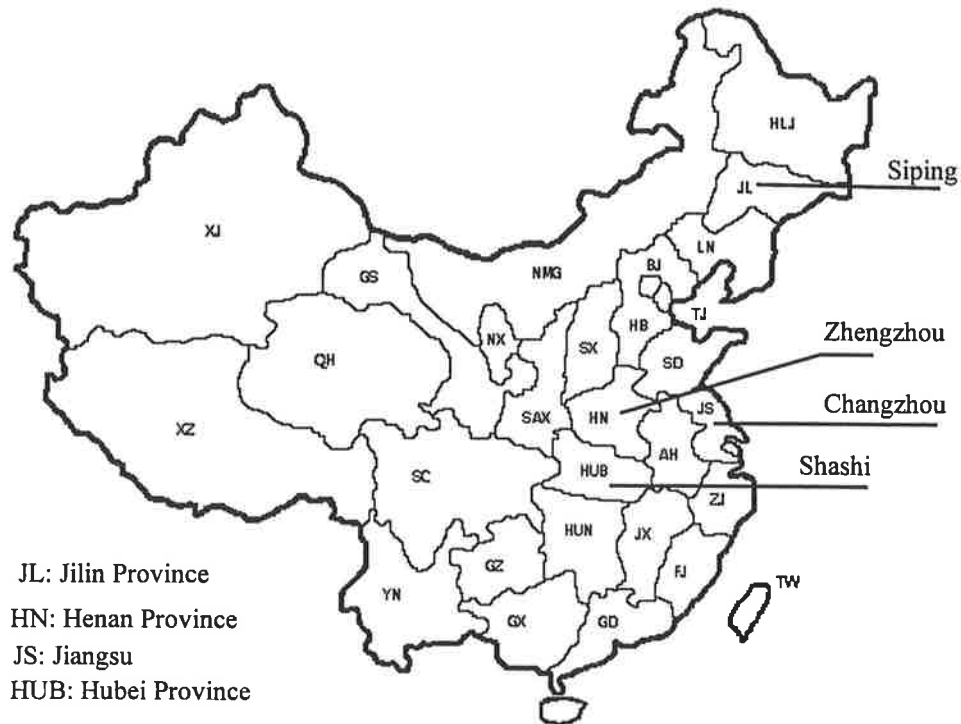
In April 1980, the central government announced that in Nanning, Xi'an, Fuzhou, and Wuxi, schemes for the sale of public housing would be initiated. Both outright purchase and instalment plan methods (15 years, at 1 to 2 percent interest) would be utilised (Kirkby 1988, p. 239). The government also encouraged housing sales by newly-

established housing development corporations for cost recovery reasons. The first urban housing construction and development corporation was established in Beijing in 1980. Thereafter numbers grew rapidly and all of these corporations sold new housing according to the housing market value (this means that the housing prices were set without any government or work unit subsidies), although only a minority of urban households were able to afford it.

The formal implementation of the policy of selling urban housing with subsidies to individuals was introduced in 1982 by the China Housing Construction and Development Corporation (*Zhongguo Fangwu Jianshe Gongsi* - hereafter CHCDC), which was established in late 1981 under the jurisdiction of the Ministry of Urban and Rural Construction and Environmental Protection. In April 1982, the State Council approved CHCDC's programme to construct and subsidise the sale of public housing (apartment units) in the four cities selected for experiments in selling public housing with subsidies. These were Changzhou in Jiangsu Province, Zhengzhou in Hunan Province, Shashi in Hubei Province, and Siping in Jilin Province (see Figure 5-2).

At first, the CHCDC proposed a scheme to speed up the realisation of urban housing commercialisation through selling public housing at the market price. The package offered by the CHCDC was a repayment period from 5 to 20 years at interest rates of up to 5 percent. When outright purchase was opted for, a 20-30 percent discount on the market price would be offered. However, significantly, the standard purchasing arrangements represented a considerable retreat from the more extreme commodification proposals suggested by Party theorists (Kirkby, 1988, p. 239).

Figure 5-2 Trial cities for selling public housing in China
in 1982



As a result, a programme of three-way partnership (*san san zhi*) was developed: when purchasing, an individual was required to make a down-payment of one-third of the housing cost, while the *danwei* and the local government financed the remainder equally. The government clearly regarded this type of private partnership as a much-needed beginning to alleviate the urban housing shortages (Kim, 1990, p. 112).

In practice, this scheme distorted the nature of urban housing commercialisation and it caused a new problem: what the local government and enterprises had to do in this reform was to provide about 70 percent of housing cost for the buyers without any

return. Actually, it was impossible to realise the central government's target which was to absorb more private savings into investment in urban housing construction, because the more public housing was sold, the more subsidies had to be paid for it. Therefore, the large subsidies in selling public housing became a heavy burden on local government and enterprise budgets. As a result, the public housing sold barely made a dent on the huge housing demand, which had accumulated over 3 decades. Obviously, it was a short sighted policy for the urban system reform.

What happened in the trial cities? Based on this short sighted policy, public housing was offered to buyers at a "standard price", which was first set at 50 percent of total construction cost, and then the government, work units and individuals would pay part of this price. The standard price was set at 300 yuan per square meter at that time. In practice, the average sale price over the country was around 20 yuan a square meter (IFTE and IPA, 1996, p. 87). In the four cities, during the first two years, 2,140 new housing units (114,500 square meters) were sold off and only 30 percent of the 16.4 million yuan investment was recouped.

In 1984, the programme spread to about 110 cities and 200 towns, with an additional 50 cities and 100 counties participating in 1985. By 1986, 4.8 million square metres of housing were sold, though it amounted to only three percent of annual production. Buyers were concentrated among younger households with limited entitlement privileges and workers whose work units could not otherwise guarantee easy access to new housing.

During the period of the implementation of these schemes, there was considerable inequality of access. This programme clearly contained the seeds of social division. In Shanghai, for example, the first batch of 200 apartments was put on sale at the beginning of 1985 by the Zhonghua House Construction and Sales Company; a further 4,000 were under construction. However, each time when selling the housing, the

apartments were offered to Party members and municipal employees in the first round, then to medium and small enterprises in Shanghai. The other problem was that the scheme did not solve the capital need for building more urban housing, and it reinforced the welfare system of urban housing consumption (Badcock, 1986, p. 166).

As the result, the program became the object of increasing criticism nation-wide, because its success depended on unequal household access to a form of in-kind wage, forcing the least-favoured to absorb the financial burden of home ownership. In 1986, the State Council withdrew its approval of the "preferential" pricing of public housing, under pressure from the criticism of its financial unsustainability and the unequal household access to the home ownership scheme (IFTE and IPA 1996, p. 87, The World Bank Report 1992, p. 26 and Yang Lu and Wang Yukun 1992, p.6). This experiment demonstrated that the three-way partnership (*san san zhi*) was not a feasible programme for financing urban housing investment or for changing China's urban housing system from a welfare system to a market-oriented system.

5.5 Low rent system reform - experiments in some cities from 1986

Although the reform of China's housing system was put forward as early as 1980, there was no fundamental change for most urban dwellers under the low-rent system until 1987. After the approaches of decentralisation of urban housing investment and selling urban housing to individuals was carried out, rents remained more or less at the same level, though personal income increased and urban housing problems still existed. Therefore, the central government focused on rental system reform. The three main reasons for starting the rent system reform are discussed below.

5.5.1 Housing subsidy increase - a big burden on the government budget

With the huge investment in urban housing construction and the improvement in the living situation in urban areas, the more the government or enterprises invested in housing construction, the more subsidies they had to pay. Economists have investigated the amount of housing subsidies from different perspectives.

Based on government expenditure, it is estimated that in the early 1980s China was spending about 18 billion yuan per year for housing construction, including government and enterprise investment. An additional 5.5 billion yuan were usually allocated for housing maintenance and repairs, and for subsidising workers to rent, purchase, or repair their own housing. The total expenditures, therefore, amounted to 23.5 billion yuan a year. Annual rent collected from public housing was only about one billion yuan. As a result, the government had to spend about 22.5 billion yuan for urban housing subsidies. The amount of the subsidy on housing was hidden from most of the general public, since they did not have to contend with maintenance or other related general repairs (Zhang Qiefeng, 1987 cited in Kim, 1990, 110, and Zhen Yuwei, 1991, p. 264).

Some scholars have studied the subsidies based on a rational structure of urban housing rent. The most comprehensive study made to date defines total worker income to include the cash salary, and the welfare benefit of various kinds including health care, price subsidies, and housing subsidies. "Rational" housing rents are assumed to average 3.16 yuan per square meter of rental space, and are derived, in turn, from assuming average housing asset values of 241 yuan per square meters of constructed space (Wang Yukun 1990, and Zhang Ronggang and Huang Zhijun, 1994, p. 28). According to this method for estimating the urban housing subsidies by the budget expenditure, The World Bank Report says:

[C]ash compensation equalled 81 percent of total compensation (worker income) in 1978, falling to 62 percent by 1988, with the share of housing (subsidies) increasing from 7 to 16 percent. Note should be taken of the fact that by 1988, this implied a ratio of housing subsidies to cash income of 25 percent. In absolute terms, this housing subsidy is estimated to total nearly 60 billion yuan (see Table 5-2) and exceed 4 percent of GNP (World Bank, 1992, p. 38).

Table 5-2 Size of China's urban housing subsidies
1978 - 1988 per year

Year	Living space per capita (square meter)	Living space per worker	Rational rent (yuan / square meter)	Current rent	Housing subsidy	Subsidy per worker (yuan)	Total workers (million)	Total subsidies (billion)
1978	4.20	6.36	0.78	0.13	0.65	49.46	94.90	4.72
1979	-	-	0.90	0.13	0.77	-	99.97	-
1980	-	-	1.03	0.13	0.90	-	104,440	-
1981	5.27	6.99	1.19	0.13	1.06	88.60	109.40	9.70
1982	5.16	7.28	1.36	0.13	1.23	107.01	112.81	12.16
1983	5.90	7.57	1.57	0.13	1.44	130.69	115.15	1504
1984	6.32	8.11	1.04	0.13	1.67	162.84	118.90	19.36
1985	7.46	10.13	2.08	0.13	1.95	236.34	123.50	29.21
1986	8.04	10.85	2.39	0.13	2.26	293.78	128.09	37.58
1987	8.47	11.37	2.74	0.13	2.61	356.60	132.14	47.13
1988	8.80	11.81	3.16	0.13	3.03	428.93	136.08	58.37

Note: Living space per capita is from the State Statistical Bureau, *China Statistical Yearbook*, Beijing (1986-1989), and for 1978-84, it based on a worker household survey in cities.

Source: Wang Yukun, "The size of housing subsidies in China" cited in the Work Bank Report 1992 p. 39.

According to the above discussion, the more housing was built and the more the living space per capita increased, the more subsidy the government or work units had to provide. Therefore, this built-in subsidy increased with more housing construction and

created a heavy financial burden on the government and enterprises so that they could not continue following this system.

5.5.2 Solving urban housing problem - the impact of the first national survey of the urban resident housing situation

After the decentralisation of investment in urban housing construction had been carried out for several years, the proportion of investment in urban housing to capital construction investment had increased rapidly, and urban living space per capita had improved from 3.7 square meters in 1978 to 5.2 square meters in 1985. However, serious urban housing problems still existed. There were still households without a permanent home, or with inconvenient living conditions and overcrowding. These housing problems were confirmed by a national housing survey conducted by the Ministry of Urban and Rural Construction and Environmental Protection and the State Statistical Bureau between July 1985 and July 1986.

The survey covered 323 cities, 1971 counties and 5273 towns, with 150 million urban residents and 40 million households (Zhu Yi, 1987, p. 14). The survey showed that work unit-owned urban housing accounted for 75 percent and state-owned under the jurisdiction of local housing bureaus accounted for 9 percent, i.e. public housing accounted for 84 percent. Private-owned housing accounted for 16 percent in urban areas. In 1986, the average household size was 3.8 persons, the living space was 24 square meters and the average living space per capita was 6.38 square metres.

The survey also revealed that although there were marked improvements in many aspects of urban housing, the shortage of decent housing was still acute and the overall living environment remained poor.

Among the 39.77 million households surveyed, 10.54 million households had housing problems, which made up 26.5 percent of total households surveyed, and included households without housing, three generations living in one room, two couples living in one room, households under 2 square meters per capita and overcrowded living conditions. Only about 24 percent of urban housing had flush toilets, kitchens and other basic utilities.

In the cities, 26.19 million households were investigated, of which 7.54 million households had various housing problems, amounting to 28.79 percent of the total city households surveyed households. In towns 13.58 million households were investigated, of which 3 million households had various housing problems, and this amounted to 22.09 percent of the total households surveyed. Among the total survey households, households without permanent home (1.28 million) accounted for 3.22 percent; households with inconvenient living conditions (4.15 million households) accounted for 10.44 percent; and households with overcrowded living conditions accounted for 12.84 percent (see Table 5-3).

Meanwhile, the growing urban population with increasing incomes continued to exert pressures on the traditional housing system. Facing these problems, the government was powerless and had no alternative but to resort to another issue - the low rent system reform.

5.5.3 Achieving a moderate level (*xiaokang shuiping*) in housing by the year 2000

With economic development, the national economic development programme established housing goals for the year 2000. The goal was to create a separate dwelling unit for each household of 8 square meters of living space per capita which is about the equivalent of 14.5 to 16 square metres of building area for each resident (Ye Rutang, 1987, p. 5). Additional space was still required for day care, education, health and other

public facilities. According to this objective, families of two to five individuals were to have dwelling units containing 16 to 40 square metres of living space, with a self-contained kitchen, toilet, closets, balcony/foyer, and a utility space for cooking gas and heating. This

Table 5-3 Housing situation of national urban residents 1985-1986

Items	Total household (million)	Total households (percent)	Households with housing problems (percent)	Households without housing for living (percent of group A)	Sharing (percent of group B)	Overcrowding (percent of group C)
Household surveyed	39.77	100.0	100.0	100.0	100.0	100.0
Having housing problems	10.54	26.50				
	1.28	3.22	12.14			
A. No housing						
a) No housing after marriage	0.38	0.96	3.60	29.69		
b) Living in non-residential house	0.39	0.98	3.70	30.47		
c) Living in simply-built housing	0.35	0.88	3.32	27.34		
d) Living in relatives' housing	0.16	0.40	1.52	12.50		
	4.15	10.44	39.37			
B. Sharing						
a) Three generations in a room	0.47	1.13	4.46		11.33	
b) Parents with grown up children in a room	2.63	6.61	24.95		63.37	
c) Grown-up brother and sister in a room	0.95	2.40	9.01		22.89	
d) Two households in a room	0.10	0.25	0.95		2.41	
C. Overcrowding in households	5.11	12.84	48.48			
a) Under two square meters per capita	0.73	1.80	6.93			14.29
b) 2- 4 square meters per capita	4.38	11.04	41.55			85.7

Source: *The Reference Collection of The First National Survey of Urban Housing Situation 1986* Ministry of Urban and Rural Construction and Environment Protection, and the State Statistical Bureau, 1987, p. 26.

goal was to be increased to 6 square metres, thereby reducing overcrowding in 1990. By the year 2000 the average space was to be increased to 8 square meters. It was intended

that these goals would be achieved partly through new construction and partly through the renovation of existing but obsolete residences (McQuillan, 1985, p. 13).

Using these estimates, and taking into consideration the existing and projected urban populations, the Chinese had to create more than 2 billion square metres of building area which, at the current estimates, would have cost about 20 billion yuan per year. This figure was almost double the annual investment for the period 1979-1983 when enormous increases in the housing stock were created. To achieve this goal in the 15 years from 1985 to 2000, 500 billion yuan was required for housing construction investment (including infrastructure cost and inflation). However, the actual amount expected from government appropriation for building housing was just 300 billion yuan (Liu Hui, 1985 p. 1).

It is very clear that, according to these estimates, there was a 200 billion yuan gap for achieving the moderate level of 8 square meters living space per capita by the year 2000, and it was impossible to rely on the government and work units to finance more capital to do so. Not surprisingly, the constraint on achieving this goal was money. The only choice for the government was to reform the low rent system and to raise the rent level in order to require individuals to contribute their share towards improving housing standards.

5.5.4 Trials of the low rent system reform in four cities after 1986

In 1986, the Leading Group for Housing Reform⁵ set the basic goal for housing reform as "raising rents, increasing wages and encouraging employees to buy houses" (*tizu*,

⁵The Leading Group for Housing Reform was established by the State Council in 1981. Its task is to normalise various local proposals into a national housing reform scheme and to coordinate the actions of different authorities for a successful program of experimentation at chosen sites and a full-scale implementation in different regions across the country. Similar leading groups (offices) were successively established by local governments, functioning for local reform program development and activity coordination.

zengzi, guli shoufang) and chose Yantai (Shandong), Bengpu (Anhui), Tangshan (Hebei) and Shenyang (Liaoning) for first formal trials (see Figure 5-3). This action aimed to change the welfare system for urban housing consumption to a market-oriented distribution system. "The great significance of these experiments lay in their direct attack on the low rents, the main defect of the old housing system" (IFTE and IPA 1996, p. 88).

Figure 5-3 Trail cities for rent system reform in China



In these trial schemes the rent level was calculated on the following basis: the depreciation fee, maintenance fee, management fee, interest from investment, and

property tax (the so-called "five element housing cost"). This effectively raised rents about ten times. Compensation was offered to ordinary tenants in the form of subsidies provided according to local levels of rent and wages. After this reform, rents usually made up about 20-25 percent of the basic wage of workers and staff members (Gao Peiyi, 1993, p. 21).

The trial cities were those cities where the pilot programs were introduced. The program formulation in the trial cities followed a similar procedure of investigation, demonstration and implementation. Variations at the local levels were approved by the Leading Group for Housing Reform under the State Council.

The Yantai model embodied the typical features of the reform target. The scheme was carried out all over the Yantai urban area and involved increasing rent and issuing rent coupons. Rent was increased from 0.13 to 1.28 yuan per square meter, which was close to the housing cost price. Enterprises issued coupons that represented a housing allowance equivalent to 23.5 percent of wages. The coupons could be used to pay the increased rent or to buy public housing. This approach was expected to reform the low rent system quickly, to foster the desire to purchase housing, and to ease the demand on public housing. After raising the rent, it said that 6,000 households changed their housing from a bigger to a smaller size and 1,000 households returned their surplus public houses to their enterprises or the local government in order reduce the rent expenditure (Office of Leading Group for Housing Reform under State Council 1991, p. 44). However, this approach did not promote a quick return on capital (Uhalley, 1990, p. 322).

In Shenyang, the rent reform focused on large enterprises, because most public housing was owned by work units. The scheme expected the reform to be led by large enterprises and then carried out elsewhere by stages and in groups. The new rent in Shenyang was 1.42 yuan per square meter, with the coefficient of the housing allowance

not more than 24 percent of the basic wage of the workers. This approach had the advantage of not shaking up too many enterprises at once, and those that implemented the reform could quickly achieve a healthy circulation of housing funds (Ming Pao [Hong Kong] 7 March 1988 cited in Uhalley 1990). However, the reform was of limited significance because it was restricted initially to large enterprises, which had to gain more profits by their production to pay the housing allowance required by this reform.

5.5.5 Further trials of the housing system reform across the country

Based on these experiments, the State Council decided to enlarge the range of housing reform trials to more cities and all provinces and to carry out the housing reform step by step across the country over the following three to five years (1988-1993). This led to the First National Conference on Urban Housing Reform held on 15 February 1988. At this conference, the document "*Guanyu zai quanguo chengzhen fenqi fenpi tuixing zhufang zhidu gaige de shishi fang'an*" (The implementation of urban housing reform throughout the country in stages and groups) was issued by the Leading Group for the Urban Housing System under the State Council (Wang Guoting and Song Changjun, 1992, p. 204).

As the reform trials continued over the country, a document was formulated by the State Council Leading's Group on Housing Reform. In this document three main aims were to be achieved in further trials: the first was to shift the housing system from a welfare to a commercial basis; the second was to combine the "enthusiasm" of the state and collectives with that of individuals in order to solve the housing problem; the third was to use different methods to suit different localities in implementing housing reform—rental increases and house sales (Pola 1992, p. 12).

To realise these aims, the main components in the reform were defined. The World Bank Report summarised the contents of further trials as follows (1992, p. 27):

a) There would be an end to the allocation of enterprise and local government resources to housing construction. Work units would shift from significant reliance on compensation in-kind, including low-rent housing, to higher cash wages and a reform of rents, allowing the latter to approach full-cost recovery levels. The simultaneous increase in rents and wages would reduce current distortions in housing demand.

b) The reforms would allow for a complete restructuring of the flow of funds through the housing sector, both for the maintenance of the existing housing stock and new construction. A housing finance system would be developed and the housing sector would become self-financing through the mobilisation of household savings; rental housing would be targeted at the "poor".

c) The reforms would imply a transformation of the housing production system with the development of an independent, consumer-oriented housing industry. This would include the emergence of real estate, banking and the development of specialised real estate institutions for the production of new housing, the management of the housing stock, and the real estate services necessary for the operation of decentralised commodity housing markets.

d) Home ownership programs, though strongly encouraged, would not benefit from deep up-front subsidies. As noted, subsidised sales would be banned.

At that time, there were 381 cities and more than 1,000 towns involved in the urban housing reform. In 1988, 80 cities started to reform the housing system. Beijing, Tianjin and Shanghai, the three big cities under the jurisdiction of the central government, began the trial in several districts, large enterprises or large institutions.

As designed in the document, the compensation for increased rent would come mainly from two channels: one was the households' income, which meant households would contribute a larger proportion of their income to housing, with no change of other conditions; the other was the upward wage adjustment, which meant the arbitrarily-depressed low wages, as the underlying cause for low rent, were to be corrected gradually with the adjustment of the national income distribution (IFTE and IPA 1996, p. 88). However, raising the proportion of household income spent on housing with all rent increases became a new burden for the governments and work units according to their fiscal ability and enterprise operation at that time. Therefore, the low capacity of households to pay any significant rent increase was the main barrier to implementing the trials with rent reform over the country.

In order to break the deadlock in rent reform, in some trial cities, selling existing public housing became the "hot point" again. Nevertheless, in 1988 and 1989, the aim of selling public housing was still to mobilise more resources from households, in order to ease the runaway inflation, to reduce the financial deficits and to relieve the burden of governments and enterprises in housing investment, maintenance and management. At that time, many houses were sold at a very cheap price with heavy subsidies, often less than 15 percent of the reproduction cost, and sometimes less than 5 percent. Before long, this action was banned again by the central government.

5.6 Turning point: housing system reform in the whole country

With the deepening understanding of China's economic reforms and after more than ten years of experiments and trials with urban housing system reform, and especially, after the experience of runaway inflation and market collapse in 1989 to 1990, the central government had to rethink the direction of the reforms. The turning point came in 1991. China chose market-oriented reform as the direction for the urban housing system,

instead of focussing on relieving governments and enterprises of the economic burden of urban housing investment.

The variation in rent reform in different places meant that the results were very diverse. Each reform scheme had some advantages and disadvantages. Actually, it was very difficult to attain a perfect scheme for rent reform suitable to an entire country. In 1991, after about four years of experiments, the State Council issued "The Notice on Continuing to Actively and Safely Advance Urban Housing Reform" and the Second National Conference on Urban Housing Reform was held. The Leading Group of Urban Housing System Reform under the State Council promulgated the document "Directive on Comprehensively Advancing Urban Housing System Reform" (Wang Guoting and Song Changjun, 1992 pp. 219-23). As the guideline for local governments, this document included four principles and three stages of urban housing reform as outlined below:

- a) The principle that government, collectives (work units including state-owned and collectively-owned enterprises) and individuals share the burden of urban housing construction. Under the precondition of maintaining the present funding channels for the housing construction, the proportion for individual contributions to housing construction investment should be increased;
- b) The principle of linking rent, sale and construction, aiming at setting up a combined process of increasing rent, stimulating house sales, recouping investment and developing a healthy circulation of funds in urban housing construction;
- c) The principle of adopting measures suitable to local circumstances and making separate decisions under the unified policy, it being impossible to make clear cut standardised procedures, methods and measures in the reform; and

d) The principle of "mechanism shifting" which means shifting the basis of the housing system from welfare to commercialisation.

Under these principles, the national targets for urban housing reform were scheduled into three different stages (Leading Group of Urban Housing Reform State Council 1991 cited in Wang Guoting and Song Changjun, 1992, p. 223):

a) The targets during the Eighth Five Year-Plan (1991-1995) were: reforming the low rent system to make rents cover the three main costs (repair costs, administration costs and depreciation costs), and increasing, step by step, the proportion of household outlays on housing; solving the problems of dangerous housing and households in difficulty who have less than 3-4 square meters of living space per capita, as well as the problems of those who are homeless; increasing average per capita living space to 7.5 square meters and increasing the ratio of "self-contained units" (*chengtao lü*) of housing to around fifty percent; making sure that in those cities which have completely undertaken housing reform, the state, the work unit and the individual all contribute to housing funds and guarantee fixed and standardised housing construction funds; and establishing the foundation for the introduction of a market system.

b) The target of the Ten-Year Plan 1996-2000 was that by the year 2000, housing rent will be of a sufficient level to cover the five basic costs (repairs, administration, depreciation, investment interest and real estate tax), and will thereby rationalise the basis for household housing consumption:

There should also be an increase in the ratio of "self-contained units" of housing to 60-70 percent of the total and an increase in the average per capita living space to 8 square meters, as well as a clear improvement in housing conditions and neighbourhood environments. Real estate markets and a feasible finance system for housing investment

would be created in order to increase the speed of capital flow and to gradually realise a healthy circulation of housing construction funds.

c) The long term target is the realisation of a housing rental standard which will cover the eight costs (the former five basic costs plus land use fees, insurance fees and profit), an even more rationalised household housing fee and commercial rent level; a greatly increased ratio of "self-contained units" of housing so that each household has a comfortable dwelling, the formation of a real estate market and housing finance system, and completion of the commercialisation and privatisation of housing.

According to the above principles for urban housing reform, local governments were empowered to plan their own schemes in order to take into account local conditions. The central government only provided a certain amount of subsidy to support local housing rent reform. Local governments could decide the speed or stages of the reform depending on their local financial situation. Thereafter, the formal and comprehensive urban housing reform started in China.

Before cities and towns were in general allowed to take action, individual localities were encouraged to experiment with new ideas. Different approaches were constantly generated at the local level. Although these reform schemes might not be mature or complete, they provided useful experience for the overall reform. At that time, the Shanghai and Beijing schemes were emulated by most other localities. These two schemes embodied the basic character of various local schemes for the urban housing reform.

5.6.1 The Shanghai Scheme

Shanghai implemented a scheme for urban housing reform in 1st January 1991, based on the Singapore model, with broad investigation and consultation with Shanghai people and many revisions. The main aims of the Shanghai scheme can be summarised as follows: establishing a local provident fund (accumulation fund); raising rents with the provision of subsidies; and the provision of the housing on the condition of purchasing low interest housing bonds (The Office of Leading Group of Housing System Reform Under the Jurisdiction of State Council 1991, pp. 3-11 and Chen Shuping, 1993, p. 9).

The Shanghai scheme focused on the establishment of a local provident fund. This fund is financed by employees and their work units, each contributing the equivalent of five percent of wages and managed by the Provident Fund Management Centre. The fund is owned by the employees, will earn token interest, and be available at retirement or for housing investments. As such, the contributor's fund could finance down-payments, mortgage payments, self-help housing construction, and major renovations. If the employees who joined the fund retire or settle overseas permanently, surplus funds should be returned to them. This approach can establish a fixed channel to finance housing capital, with about ten percent of equivalent employees' wages invested in housing construction.

In the Shanghai scheme, there are two approaches to reforming the old rent system. Firstly, the rent is raised to such a level that tenant payments can cover routine maintenance expenditures, and this means that payments have risen from an average 0.27 to 0.45 yuan per square meter monthly. Secondly, all newly allocated rental housing will be subject to household purchase of a five-year bond carrying a nominal interest payment. These bonds are calculated on a per square meter of rented-space basis and vary according to housing quality (seven grades) and location (five grades). For example, 65 yuan per square meter of newly-allocated housing of the highest quality in

downtown Shanghai, 50 yuan per square meter in suburban areas, and 35 yuan at Shanghai's periphery. Although the approach of a five-year housing bond has been an improvement over existing practices, it has had a limited impact. The World Bank report commented: "Since the housing bonds are redeemable within five years, their impact on household rental expenditures is limited, when compared to the policy of redemption only on vacating the premises" (1992, p.31).

5.6.2 The Beijing Scheme

Beijing's scheme is typical of what was actually proposed at the local level across the country as a whole. The main approaches to the housing reform included raising rents without wage compensation; selling both new and old houses at preferential prices or market prices; combining housing reform with the reconstruction of dilapidated housing; carrying out *xinfang xinzu* (new house, new rent system), that is, increasing rents on newly leased housing; and establishing a provident fund in order to realise alternative channels to finance housing capital. Two characters of the reform measures should be pointed out.

Rent reform, without any offsetting wage adjustments:

This would proceed very slowly. Over the period 1991-1995, rents would increase from 5-6 yuan per month, for a standard two-room apartment, to 25 yuan per month, or enough to cover routine maintenance and management expenses. Then, only after an additional ten years, rents would rise to the equivalent of 10 percent of present income, a level which corresponds to 40-50 yuan per month.

This scheme had been fully trialed in selected units or districts since 1988, before it was implemented in the whole Beijing urban area in January 1 1992. Rent was planned to rise to 0.275 yuan per square meter. During the next year, 1993, it would rise to 0.41

yuan per square meter and in 1994, it would continue rising to 0.55 yuan per square meter. The rent increase without raising employees' wages was based on a large-scale investigation of the previous and existing housing expenditure in the city. In the early 1950s, rents were 5 percent of average wages, and had gradually fallen to about 1 percent in the later 1980s. Therefore, no subsidies would be provided for the rent increase until the level of rents amounted to 4-6 percent of the average wage.⁶ By coincidence, the experimental cities of Yantai and Bengbu have achieved this rent increase without raising wages. This standard, because it is linked to an arbitrary cap on wage adjustments, bears little relationship to the full cost recovery considerations implied by the asset value of newly-constructed housing (World Bank 1992, p. 29).

Selling both new and old housing at preferential prices:

According to the principle of housing reform, a preferential price (so called standard price or cost price) for selling old and new public housing was calculated. Combining the experience in foreign countries and the average wage standard in Beijing, the local government set the housing price for sale to ordinary employees at 380 yuan per square meter. In the light of the theoretical price or calculated price, a house of 50 square meters would amount to the equivalent of five years' official income for a working couple in Beijing, which was in keeping with the housing cost equivalent of three to six year's family income in foreign countries. In practice the market price of housing which was from 1500 to 2000 yuan or more per square metre⁷ was much higher than this

⁶If real income growth is assumed to equal 50 percent per decade, the anticipated rent burden in constant prices would not exceed 5 percent, on average.

⁷Housing construction costs have risen sharply in the period 1985-1995. The main reasons for this are: the increased price of building materials; higher compensation payouts for land appropriation, demolition of old houses, and removal of residents; the rising cost of infrastructural development (such as water, electricity, and gas supply), as well as road construction and the erection of utility buildings (such as shops, schools, kindergartens, police substations); a range of taxes; and the higher profit rate in property speculation. (Ku Kangning 1990, 'Dui woguo zhuzhai shangpin gaige de jidian sikao'(Some considerations on the commercial reform for housing in our country) *Xinhua wenzhai* (Xinhua Digest) No. 2 pp. 58-60 cited in Chen Shuping 1993.

preferential price in Beijing, but most localities followed suit to set preferential prices suitable to their own local situations for selling public housing. Although this kind of housing price had appeared before, this time the approach became open and legitimate. Since then a dual-track housing price has existed in the housing system.

The attempt to extend housing reform across the country as a whole after 1991 has not, as yet, been very successful. Under the current system, the work units, which control most of the public housing stock, have to pay employees' wages, price subsidies, in-kind benefits and pensions. As such, all housing reform measures, such as contributions to the provident fund and subsidies for rent increase and housing sale, are little more than an internal circulation of funds within the work units themselves. They do not give any encouragement for work units to move forward with housing reform.

Therefore, since the Second National Conference for Urban Housing Reform in 1992, no fundamental progress had been made, though more concrete targets were drawn up by the new documents for urban housing reform, and more autonomy was given to local governments and work units. This situation led to the holding of the Third National Conference for Urban Housing Reform in July 1994 in Beijing. At this conference, the State Council issued another document: "*Guanyu shenhua chengzhen zhufang zhidu gaige de jueding*" (Resolution on Deepening Urban Housing Reform), (Office of the Leading Group of Housing System Reform 1994 cited in Hou Jie, 1996, pp. 804-805). In this document, the sale of public housing was retargeted as the "breakthrough point", in order to push forward the rent increase and other reform approaches. However, restricted by low income levels and irrational rent-sale price ratios, a wave of deep discounts on public housing sale appeared again. It led to an immediate State Council directive to ban the discount activities (IFTE and IPA, 1996, p. 91).

So far, the results of the urban housing system reform have proven that the new strategies for promoting the reform did not achieve the desired results. Therefore, how

to revise the general reform scheme in order to guide local governments to draw up more effective and feasible plans is still an urgent issue.

5.7 The impact of urban housing reform 1980-1997

Changing the underlying attitudes towards urban housing consumption and carrying out various trials of housing system reform has taken about 17 years. During this period, the housing reform has passed through several stages and focused on changing economic mechanisms in order to reform the old urban housing welfare system and to realise the commercialisation of urban housing supply and consumption. As a result, China has experienced tremendous changes in its urban housing situation. Nevertheless, it should be pointed out that, although there have been great achievements, the housing reform has not fulfilled its aim of establishing in multiple channels of financing housing investment, sale of public housing, and raising rent.

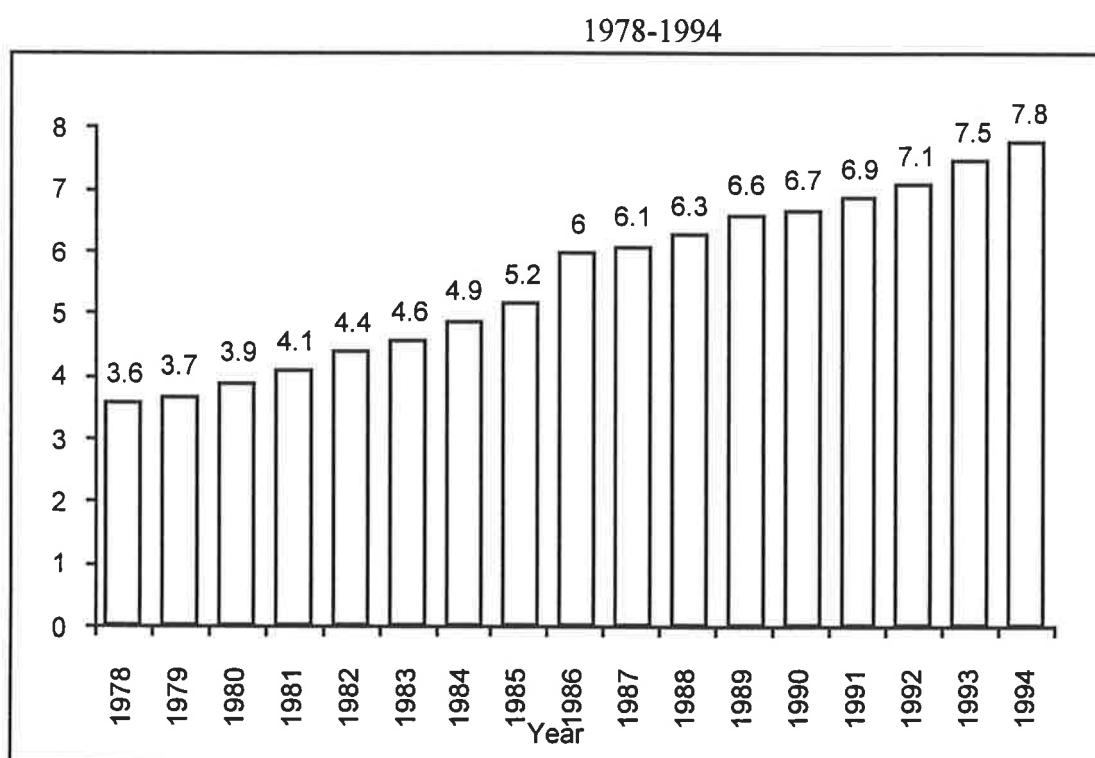
5.7.1 Multiple channels for financing housing investment and the housing situation

After China's policy-makers changed their attitude towards the relationship between capital accumulation and consumption, urban housing investment was decentralised in order to overcome the housing crisis at that time. Developing multiple channels for housing investment was the main target of urban housing reform. Has this goal been achieved? We can see that the average standard of living space has been improved a lot by means of the decentralisation of housing investment, but although multiple channels for urban housing investment have evolved, the main channel for housing investment and construction is still state-owned units. As a result, the decentralisation of housing investment has not changed the welfare system whereby urban housing is mostly provided by the government or work units

With Chinese economic development, decentralisation of housing investment had led to a housing construction boom. During the period of the Sixth-Year Plan (1981-85), the average floor space of housing construction was 139 million square metres per year; during the period of the Seventh-Year Plan (1986-90), 183 million square metres per year; and during the period of the Eight-Year Plan (1991-95), about 240 million square metres per year. The speed of growth of housing construction resulted in the rapid improvement of the housing situation in urban areas.

Figure 5-4 shows us that the average living space per capita increased from 3.6 square metres in 1978 to 7.8 square metres in 1994. Although the natural growth of the urban population was on the increase, the living space per capita in 1994 was more than double what it was 17 years previously.

Figure 5-4 Living space per capita in urban areas



Source: *Chinese Statistical Yearbook* 1990 and 1995.

Note: Due to the definition change of urban areas including the definition of cities and towns in 1984 and 1985, the range of urban areas was extended rapidly in this period. Because the average living space per capita in county towns is higher than in cities and large towns, in 1986 there was a jump in living space per capita of 0.8 square metre.

Decentralisation of urban housing investment stimulated local governments, work units and individuals to invest in housing investment and construction. In solving the housing shortage, it was very successful, but as for reforming the old housing welfare system, this strategy had little impact. It did not thoroughly overcome the defects in the old system of centrally controlled investment and administrative distribution, and it did not realise urban housing commercialisation. To date, housing investment by different levels of governments and work units amounts to more than 70 percent (see Table 5-4). This part of housing investment included capital construction investment, technical improvement and transformation investment. All of this came from the budgets of central or local governments and enterprise profits. For private investment, most of the investors are the new rich in the cities and private operators in the towns. The figures in Table 5-4 indicate that the monopoly of rigid central planning and housing control has been broken. However, although multiple channels for financing housing investment have been established, after 17 years of reform of the urban housing investment system, private investment is less than 20 percent. Housing urban residents still rely on governments or work units.

Table 5-4 Structure of housing investment in urban areas
selected periods

Period of five-year plan	Total	State-owned investment	Collective-owned investment	unit: percent
				Private investment
1971-1975	100	100	nil	nil
1976-1980	100	97.4	1.1	1.9
1981-1985	100	84.2	5.2	10.6
1986-1990	100	69.0	5.1	25.9
1991-1994	100	73.9	8.2	17.7

Source: *China's Urban Housing Reform*, IFTE and IPA, pp. 208-210.

5.7.2 Commercialising urban housing and housing markets

The second approach adopted in urban housing reform was selling housing to individuals. There were two aims: one was to solve financial problems and to build more housing through increasing individual contributions to urban housing consumption. The other was to establish an urban housing market as a necessary part of urban housing commercialisation.

In this approach, due to the dual-track price, one a "preferential price" for selling public housing with heavy subsidies, the other a market price for housing sale according to market value, two kinds of housing markets existed. The housing market with a "preferential price" is an "internal housing market", because the public housing is only sold to the employees who work in the work units. The housing market with a market value for housing sale is an "open" housing market, because anyone can buy the housing in the market following market principles.

Selling public housing at preferential prices in the "internal housing market"

This approach could not establish a "real housing market", because the preferential price was only about one third of the real housing value and it did not reflect the relationship between the supply of and demand for urban housing as in a market economy system. On the demand side, the buyers were employees in these work units; on the supply side, the seller was the employer or the work unit's owner. There was no competition, and the basic principle for setting the housing price was still determined by the government. Therefore, this approach was still within the old housing philosophy. The difference was that housing was now sold at a subsidised price instead of rented at a low rent. Although implementation of the selling of public housing could relieve governments and enterprises from the burden of housing maintenance and the management fees, in the

meantime, it caused a drain on state resources because the government and enterprises had to provide large subsidies. Hence, it is impossible to realise the commercialisation of urban housing and the establishment of urban housing market by selling public housing with heavy subsidies. As IFTE and IPA commented in their reports:

"Actuarially, as a main part of the housing reform, these experiments were not motivated by the desirability of establishing a market-oriented housing supply system, but by some 'short-sighted factors' of quick return of investment or collection of some funds, since the government investment and self-raised funds of various work units could meet demand for new housing which was growing rapidly in 1980s. Moreover, with no fundamental change of the low rent policy, the increase of housing investment and stock could only lead to more subsidies and more burdens for the government and enterprises" (IFTE and IPA, 1996, p. 87).

Selling new housing according to market value in an open housing market

This reform made the urban housing market grow. In 1995, there were 24,372 real estate development companies in China, of which the state-owned accounted for 11,939; the collectively-owned 5,478; the foreign funded 1,231, and the overseas Chinese from Hong Kong, Macao and Taiwan funded 3,456. In recent years, the proportion of commercial housing purchased by private individuals increased. For example, in 1986, private housing purchases made up 14 percent of total commercial housing for sale. This means that the others were bought by work units for housing their staff. However, in 1994 the proportion of private housing purchases increased to 54.7 percent (*China Statistical Yearbook 1995*, p.186). The housing market had been set up in terms of a housing market price and the development of the real estate operation.

However, there are some problems in "open" housing markets. Although the market has been developed, the amount of commercial housing still makes up only a small proportion of total newly-built floor space each year. For example, in 1990 the floor space sold to private individuals amounted to 4 percent of total newly-built housing and 11 percent in 1994. Compared with the urban housing stocks owned by governments or enterprises, the amount of commercial housing sold in the open housing market cannot influence the basic character of urban housing ownership.

The other problem is that at present, commercial housing is seriously overstocked on the housing market (not the housing for sale at preferential prices). In 1995, the amount of overstocked housing for sale was more than 51 million square meters, of which 70 percent was ordinary housing for people to live in. Furthermore, selling overstocked housing, at discounted prices of about 30-40 percent for the '*Anju gongcheng*' (Comfortable Housing Project) has appeared (Zhu Jian 1996, p.9).

Why is there overstocking of commercial urban housing? Two reasons can explain this situation. First is that the housing prices on the open housing market are too high to be afforded by ordinary employees depending on their monthly wages. Compared with the 3-6 times employees' annual income in other countries, in China, housing prices are about 5-15 times annual incomes, depending on occupations and location. Without wage system reform, it is impossible to attract a majority of urban residents to join in the open housing market. Therefore, the level of housing prices narrows the extent of urban housing commercialisation to a very small range and constrains the role of the housing market. The other reason for explaining the overstocking of urban commercial housing is that the low rent system still exists and works well. As a result, there is no reason for people to give up "social welfare" to take on the burden of housing themselves. If people have to buy their housing, they choose the internal housing market with heavy subsidies rather than the open housing market.

So, in China to date, it is true that a commercial housing market has been set up and developed to a certain extent. Nevertheless, the housing market does not play a crucial role in supply and demand. The main point is that the old economic systems, including the wage system, housing system and others, have not been fully reformed.

5.7.3 Increasing tenants' contribution to public housing - low rent system reform

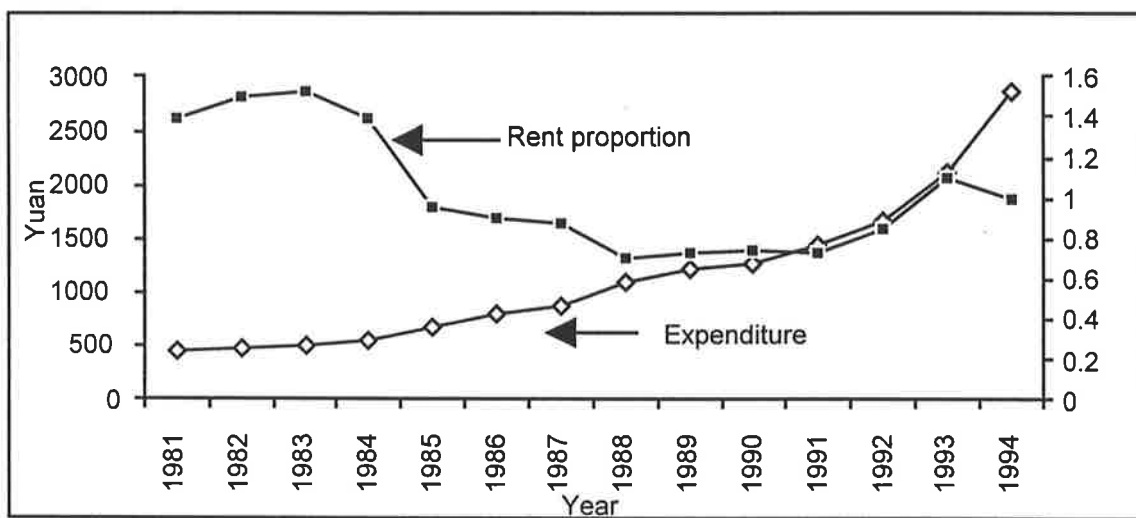
Low rent system reform is the first and most important target of the urban housing system reforms because the majority of urban public housing is provided under this system. After the implementation of the reform, the average subsidised rent level for public urban housing increased, and as discussed in the Shanghai model above a provident fund was set up by accumulating 5 percent of employees' wages as a compulsory system. With deepening reform of the low rent system, some people have bought their own housing on the internal housing market or the open housing market. Therefore, the low rent system has been broken through. However, this does not mean the rent reform has been completed. To some extent, the reform did not achieve its stated goal.

In 1994 the average income per capita in urban areas had increased 4.8 times compared to that in 1985, and the index of annual per capita income increased by 187.2 percent, which discounts the effects of inflation (*China Statistical Yearbook 1996*, p. 281). So, this means that with the income increase, urban residents have the ability to pay more rent for public housing, so that the target of the low rent system reform could be realised gradually. However, this has not happened. The proportion of rent per capita to annual income experienced little change during this period (0.86 percent in 1985, 0.82 percent in 1994 [*China Statistical Yearbook 1985-1995*]).

In respect of consumption, the annual expenditure per capita in urban areas in 1994 was 4.2 times as much as that in 1985. The proportion of the rent to annual expenditure only

increased by 0.04 percentage points (0.96 percent in 1985, 1 percent in 1994 [*China Statistical Yearbook 1986-1995*]). The rent expenditure after the low rent system reform in 1994 decreased compared with the rent expenditures before 1985 (see Figure 5-3). This means that the low rent system reform did not make tenants contribute more to public housing.

Figure 5-5 Expenditure and rent as a proportion of expenditures per urban resident (selected years)



Source: *China Statistical Yearbook* various issues, 1985-1995.

In a market economy, housing expenditure is about 15 to 50 percent of monthly expenditures, depending on local conditions and household tenure choices between renting and owning. This standard is considered as one of the basic aims of China's low rent system reform, and the new housing policies were planning to increase the proportion of rent to expenditure to 5 percent at the first stage, then to 15 percent in order to reduce government subsidies and to implement the commercial operation in urban public housing. This was reflected in the schemes in the trial cities. In fact, however, although the reform has been carried out for many years, the aim of increasing the rent level was never realised. In this respect, the low rent system reform was not at all successful.

5.8 Conclusion

China started the urban housing system reform in 1980. After changing the basic ideology towards urban housing consumption, the reform has experienced four stages, including the decentralisation in housing investment and construction, the sale of newly built urban housing, experiments with low rent system reforms and selling existing housing stocks in selected cities, and the implementation of the urban housing system reform all over the country.

During this period, in solving the urban housing shortages, China's housing situation has experienced a tremendous change. Living space per capita is more than double what it was before the reform and living conditions in urban areas have improved. For establishing a new urban housing system based on a market-oriented economy, there is some progress but the reform has not yet completed its stated aims.

The first aim of the urban housing system reform was to change the housing investment by the governments and work units and to share the burden of urban housing construction among government, collective and individuals in order to set up multiple channels for urban housing investment. The main approach to realise this aim was the decentralisation of housing investment allocation. However, the proportion of housing investment by central or local governments and units still amounts to 80 percent of the total of urban housing investment.

The aim of selling public housing to private home-owners was to change the structure of housing ownership in order to establish an urban housing market. Due to a dual-track housing price, two housing markets exist, that is the selling of public housing at preferential prices on an "internal housing market" and selling new housing according to market value on an "open housing market".

The internal housing market follows the old welfare system, with heavy subsidies. Although this approach relieves the government and work units from the burden of maintenance and management cost, it turns the state-owned housing assets into a loss. And market forces still do not play any role in the relationship between supply and

demand due to various rigid regulations issued by different levels of governments. In the open housing market, the housing price is too high to be afforded by wage earners. In the meantime, people are not willing to buy their own housing because the low rent system still exists. Therefore, the open housing market has been limited to a very narrow range.

The aim of the low rent reform was to reform thoroughly the welfare system in urban housing consumption and to realise urban housing commercialisation, combined with multiple channels for financing housing investment and sale of public housing. Through the reform, the provident fund has been set up and the ideology of the housing welfare system has been undermined. The measure of whether or not the low rent system reform is successful should be an increase in the proportion of the rent to total expenditure. However, after many years of trials in selected cities and implementation of the housing reform in the whole country, the proportion of rent to total expenditure of urban residents was only 1 percent in 1994, lower than it was in 1980 before the housing system reform! Therefore, the low rent reform has not made rents more commercial and the rent for public housing still is subsidized by the government and work units

To date, the experience of China' urban housing system reform has placed stress on relieving the burden of housing investment and solving the housing shortage. It has not fundamentally changed the old housing system. Although the reform has gained some achievements in respect of the multiple channels for investment, sale of public housing and raising rent, the result of the reform falls short of its target. Therefore, the issue of

how to further reform the urban housing system in order to realise housing commercialisation and to set up a housing market based on a market economic system is still open for discussion. If a new housing system is to be established, the following issues have to be considered: setting a rational housing price, establishing efficient housing finance, clarifying and legislating for property rights and creating independent and socialised housing management companies.

Chapter 6 Key Issues in Establishing a New Housing System Based on a Market Oriented Economy

6. 1 Introduction

China began its urban housing system reform in 1980 and, as discussed in the preceding chapter, this reform has experienced four stages: decentralisation in housing investment, sale of urban housing, experiments with low rent reforms and implementation of urban housing system reform all over the country.

In terms of solving the problems of urban housing shortages, living space per capita is now more than double what it was before the reform and living conditions have improved. However, although there has been some progress in implementing multiple channels of housing investments, selling public housing and raising rent, the shift towards a new urban housing system based on the market-oriented economy has not achieved its scheduled targets.

As discussed in Chapter 5, firstly, the proportion of the housing investment by central or local governments and work units still amounts to 80 percent of the total of urban housing investment. Secondly, due to dual-track housing prices, two housing markets exist: an "internal housing market" with preferential prices and an "open housing market" in which the market sets the housing prices. The former still follows the old welfare system. The latter is limited in a very narrow range because most urban residents still rely on the provision of public housing. The reason is that the price is too high for wage employees to afford housing, and the low rent system still exists so that

people can get heavy subsidies if they live in public housing. Thirdly, in terms of the reform of the low rent system, the proportion of rent to total expenditure of urban residents was only 1 percent in 1994, which is even lower than in 1980 before housing system reform began.

As a result by 1997, China's housing reform had not fundamentally changed the old housing system. Although it had made some achievements in respect of multiple channels of investment, sale of public housing and raising rent, it had not achieved its main aims. It is argued here that, to some extent, housing shortages in urban areas still exist. This is because the housing reforms have focused all along on overcoming the lack of capital in housing construction in order to solve the housing shortages in urban areas and to relieve the burdens on the central government and work units, instead of on reforming the entire urban housing system.

In this chapter, the key issues still confronting the housing reforms will be discussed. Considering the experience of housing systems in market economies and China's present situation, it is argued that further reforms should focus on four aspects: 1) setting rational housing prices based on wage system reforms and capacity of residents to pay, 2) clarifying and legislating for property rights, 3) creating independent and socialised housing management companies, and 4) establishing an efficient housing finance system.

6. 2 Setting up rational housing prices based on the residents' capacity to pay

In China's experience of urban housing reform has proven that the first crucial issue is how to establish a rational housing prices based on both demand and supply in a housing market. It involves the relationship between housing sale prices, rents and incomes. At present, the problems of housing prices are reflected in two aspects: one is

that the housing price in the "open housing market" is too high to be afforded by ordinary urban residents. Therefore, it results in an overstocking of newly-built housing. The other aspect is that rents cannot be raised to a market level without a huge wage adjustment. This situation keeps the rents at a very low level. As a result, the low rent system has not fundamentally changed, and the funds collected from rent are not enough to satisfy the demand for housing investment.

This section focuses on a discussion of the housing price distortion in the present housing system. The first step explores the housing price-income ratio in China and the way open market prices are set in order to argue that the high housing price in the open market leads to a low level of affordability among households. It is then argued, in the second step, that the rent level determines people's willingness to buy their own housing. The present low rent level is therefore still a crucial obstacle to realising housing commercialisation. However, wage adjustment is a prerequisite for raising rent to market levels. The third step examines the relationship between supply and demand in the present housing situation, where there is excess supply in the open housing market and excess demand in the internal housing market. These exist side by side. On the one side, there is a lot of vacant new housing in the open housing market; on the other side, there is a lack of supply of housing at the low rent in the internal housing market. The result is the irrational housing sale prices and rents, and the failure to complete housing system reform.

6.2.1 The capacity of households to afford housing: the housing price-to-income ratio in China

The housing price-to-income ratio (PIR) can be measured as the ratio of the average trading price of a housing unit to the average cash income of households at a certain time and in a given city. The PIR is an important criteria for measuring the capacity of

households to afford housing and an indicator for the housing demand-supply relationship in a market economy.

A rough preliminary indication of how housing prices compares with household incomes in the urban areas studied can be obtained using the following rule of thumb. In most market economies, the PIR varies between 2:1 to 6:1 depending on the city and location involved (Grime 1976, p 65 and World Bank 1992, p. xiii). This means that housing expenditure is around 15-30 percent of household monthly income, varying by the amount of down payment and the time limit for loan repayments. This is regarded as an affordable prices for average households. In developing countries, housing expenditure by low-income households requires a higher than average share.

However, this is not the case in China. With rapid economic development, the primary distribution of national income has been adjusted and household income has clearly improved compared with the levels before the economic reforms. But the PIR in China does not allow ordinary employee to buy their own housing in open housing markets (See Table 6-1).

Compared with an international average level, the housing prices in the majority of urban areas are too high to be affordable for people who work for a salary. Table 6-1 shows us that in 1994 the PIR in 19 urban areas was over the range 6:1 and over 10:1 in 6 urban areas. The highest ratio was 15.76 :1 in Heilongjiang province. Only four urban areas fell in the range 2:1 to 6:1. These urban areas are located in remote inner regions, and have undeveloped economies and less population compared with coastal urban areas. Furthermore, the ratio calculated in Table 6-1 is a mean value in urban areas which include all cities and towns. Actually, housing prices in large cities are much higher than in small towns. If we only compute capital cities in provinces and high population density cities, compared with the ratio in small towns the ratio in these cities is very high . For example, that Renaud states in Beijing "the price to income ratio is

initially a major obstacle to privatisation but can be expected to decline significantly with the increase of market transactions" (1991, p. 23).

The main reason for the high housing price in the open markets is the irrational price-setting mechanism. In China, the housing price is not formed through market competition. It is still calculated according to the development costs and influenced by government policies. The defects of the price mechanism is the high appraisal of the total costs. It is very common that many apparently random items are added into housing costs in most Chinese cities (IFTE and IPA, 1996, p. 149).

In China, the housing price consists of 13 items, with a total of 71 sub-items varying among different projects and urban areas. They can be classified into 4 major types of costs: the first is that for land acquisition, resettlement of the peasant owners, site development, construction, taxes, project management and profits. The second includes expenses for auxiliary facilities associated with the housing such as general heating, power switching centre, transformer and high-pressure pump. The third covers all public facilities, including green space, on-site infrastructure, kindergartens, schools, sub-district offices and other unspecified items, commonly known as *da peitao* (public infrastructure in new housing developing areas). The fourth is for commercial facilities such as a clinic, grocery store, book shop, gas station, sewage plant, etc. The proportions of all the 13 categories are shown in Table 6-2.

Table 6-1 Average housing price to household income ratio in urban areas
in all provinces of China in 1994

Regions	Housing building space (sq. m)	Housing Price ^b (yuan / sq. m)	Housing price per flat (1,000 Yuan)	Household annual income (Yuan)	Price to household income ratio
Average ^a	74.75	1194.12	89.3	9076	9.84
Beijing	63.92	2740.30	175.1	13046	13.42
Tianjin	62.62	1681.20	105.3	10728	9.82
Hebei	72.95	705.61	51.5	8370	6.15
Shanxi	72.91	702.74	51.2	7994	6.40
Inner Mongolia	72.23	869.47	62.8	7350	8.54
Liaoning	66.73	1312.50	87.6	8538	10.26
Jilin	74.32	1094.64	81.4	7332	11.10
Heilongjiang	69.13	1539.77	106.4	6750	15.76
Shanghai	57.18	1921.34	109.9	14810	7.42
Jiangsu	71.30	1034.03	73.7	9948	7.41
Zhejiang	77.31	956.93	74.0	11194	6.61
Anhui	68.64	767.75	52.7	7586	6.95
Fujian	94.28	1431.41	135.0	9778	13.81
Jiangxi	88.69	499.03	44.3	6900	6.42
Shandong	80.56	855.74	69.0	8676	7.95
Henan	79.85	567.19	45.3	7092	6.39
Hubei	81.66	866.34	70.8	8102	8.74
Hunan	74.42	788.41	58.7	8208	7.15
Guangdong	88.25	2140.45	188.9	14234	13.27
Guangxi	93.96	813.07	76.4	8936	8.51
Hainan	40.64	1832.88	74.5	8976	8.30
Sichuan	74.23	734.33	54.5	8056	6.77
Guizhou	84.71	688.22	58.3	7740	7.53
Yunnan	73.37	1082.05	79.4	9028	8.80
Shaanxi	51.15	628.54	32.2	7606	4.23
Gansu	67.99	796.57	54.2	9592	5.65
Qinghai	63.58	592.53	37.7	9952	3.79
Ningxia	54.81	580.24	31.8	8540	3.72
Xinjiang	70.93	1122.38	79.6	8506	9.36

Note: a. Average is calculated based on the urban areas of all provinces all over the country.

b. In China, housing price for sale is set according the building space, while living standards are calculated based on the living space, which amounts to about 50 percent of the building space. These conditions vary depending on different housing standards and regions.

Source: Hou Ximin 1996, "Fanggai yue wan yue beidong (The later the housing reform, the more passive)", *Liaowang (Outlook)* p. 19.

Table 6-2 Price composition of commercial housing in Beijing

Cost items	proportion of housing price (%)
1. land acquisition	4.7
2. resettlement	24.5
3. land development	4.4
4. construction	25.6
5. auxiliary facilities	3.7
6. outdoor projects ^a	3.0
7. public infrastructure	7.2
8. environment and green space	0.6
9. facilities for gas, water, heating	5.6
10. large project public infrastructure	10.6
11. business tax and local construction tax	2.4
12. management fee	1.8
13. profits	6.1

a. Outdoor projects in China's include water pipeline, sewage system, communication and post, yard and fences

Source: Liu Qi (1992), *Zhongguo dangdai zhuzhai jingjixue* (Housing Economics in Modern China), cited in IFTE and IPA 1996, p. 152.

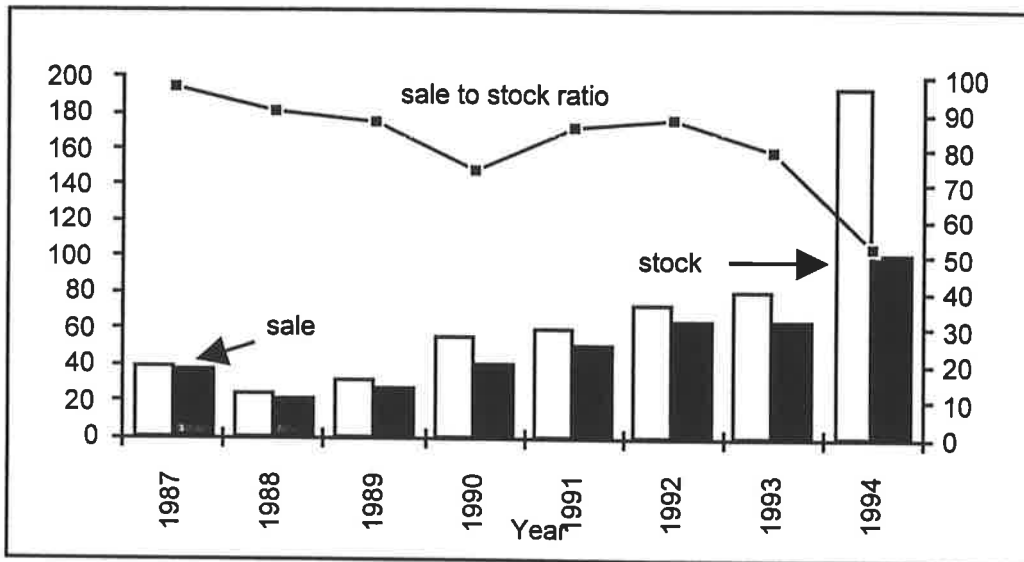
In fact, the real cost directly related to housing construction in Table 6-2 involves items 1, 2, 3, 4, 11, 12 and 13; which belong to the first type of housing cost. The other items such as 5, 6, 7, 8, 9 and 10 should not be included in the housing cost. For example, the cost of auxiliary facilities and outdoor projects can be paid for through fee collection rather than in the housing price. The cost of a large project public infrastructure theoretically should be covered by the government budget because these public facilities have been paid for by the residents' taxes. Items 5 to 10 amount for the more than 30 percent of the housing price. If they are covered by other more efficient finance channels, the present housing price can be cut by one third and the price to income ratio can be reduced to a reasonable level.

The irrational housing price in China is caused by "apportioned levies" (*tanpai*). Due to the limited market role and the irrational method of housing price setting, it is very easy for local governments to transfer expenses in their budgets onto housing construction projects through special levies. Local governments can arbitrarily enlarge or put new items in housing costs. This is caused by China's present economic systems. Up to now, there is not a very clear distinction between public and private goods. Private goods have to share in the cost of public goods like items 8 and 10 (Table 6-2). The housing price is so high that housing for sale in the market is overstocked.

Why then, are housing prices unaffected in the open markets? The reason for this is that most real estate companies raised funds for housing construction projects either from other companies and institutes or from banks. If the housing prices fall the real estate companies will lose money and they cannot pay back the amount they borrowed. Therefore, some real estate companies will borrow again from one company to pay another rather than cut down the price. As a result, chain debts have been formed. Most banks in China have been involved in housing development projects in open markets or they have set up a section to run housing businesses. If the housing price were to fall and lose money, the bank leaders would have to take responsibility. So, in preference, the banks keep the housing price high and their accounts balanced rather than selling overstocked housing and losing their investment. At present, although the real estate companies do not have the capability to repay their loan, the banks can do nothing for them because there is not an efficient or practical financial system to deal with this situation. Meanwhile, the government does not want more companies to collapse.

In Tianjin, despite the housing supply increase, the percentage of housing for sale at the PIR of 9.82:1 (see Table 6-1) has been decreasing. In 1987, the sale rate of ordinary housing in Tianjin was 97.3 percent of the total supply, while in 1994 it is only 52.3 percent. Superficially, it seems like a market; in fact, the outcome is caused by government behaviour (see Figure 6-1).

Figure 6-1 Ordinary housing sales in the open market
in Tianjin 1987-1994



Source: The data is from the book *1996 China's Real Estate Market*, Beijing Gaode Real Estate Company Limited, 1996, p.383.

Enterprises are major buyers of urban housing. In Tianjin, for example, the proportion of various buyers in 1994 is shown in Table 6-3. Enterprises account for 53.1 percent of total housing sold, and through buying housing for some leaders of the enterprises, they force housing standards to rise so that housing construction costs rise with them.

Table 6-3 The composition of housing buyers in Tianjin in 1994

Items	space (square metres)	percent
Government organisations and institutions	238	0.5
Foreign invested companies	8968	19.0
domestic enterprises	25113	53.1
Individuals (overseas)	404	6.9
Individuals (domestic)	12571	26.5

Source: *1996 China's Real estate Market*, Beijing Gaode Real Estate Company Limited, 1996, p. 386.

With a high PIR it is impossible to develop an open housing market all over the country and to increase the proportion of privately-owned housing. By the end of 1995, unsold housing had reached 51 million square metres. Ordinary housing accounted for 70 percent of this total (Zhu Jiang, 1996, p. 10). The high PIR is far beyond the affordability of residents. Changing the price mechanism and setting a rational housing price is a crucial issue for resolving the contradiction of overstocking and low affordability and for developing an open housing market.

6.2.2 Housing price-to-rent ratio in the housing market: rent reform

A major purpose of rent reform is to remove distortions in the choice by individuals to buy their housing units. The choice between owning and renting will be discussed in detail in this section.

Under a market economy, the relationship between the price of renting and owning is the determinant of tenure choice. Tolley (1991) and the World Bank Report (1992) have done some research on this aspect. Their research method is adopted to analyse whether rent reform has reached the goal of stimulating people to buy their own housing in order to relieve the burden of housing supply by work units or governments.

The principle of housing price-to-rent ratio

How does a family decide its tenure choice? If the family rents, the yearly price of housing should be simply equal to the yearly rent charged. The rental cost of housing should include the interest cost on the investment plus depreciation and operating costs:

$$R = iV + sV + E_o \quad (1)$$

where: R = yearly rent

i = rate of return on the investment

s = the depreciation rate

V = housing value, and

E_o = yearly operation expenses (maintenance, management,
taxes, insurance and normal profit)

The yearly cost of home ownership is shown in equation 2 to be the sum of various annualised costs. The yearly cost of housing ownership is called the user cost of ownership shown as U :

$$U = iV + sV + E_m \quad (2)$$

Where: iV = interest on the housing asset,

sV = yearly depreciation and

E_m = yearly upkeep expense.

According to the two equations, tenure choice is determined by the yearly housing prices of R and U . User cost relative to rent plays a crucial role in the housing tenure decision. In a market economy, the housing value, which developers must charge to stay in business, will be determined by construction costs, and rents will have to be set by providers of housing to recover their costs. The family compares its user cost to the rental rate in deciding whether to be a tenant or an owner (Tolly 1991, p. 34). Therefore, equation 3 presents this relationship:

$$iV + sV + E_o = iV + sV + E_m \quad (3)$$

On the left side of equation 3 is the yearly rent charged (equation 1); on the right side is the yearly costs of housing ownership (equation 2). E_o and E_m represent routine operation expenses and upkeep expenses separately for these two housing tenure choices. They have a very strong influence on the choice by individuals to buy or rent their housing.

The principle of housing price to rent is that people would be indifferent between renting and owning their own housing, when the yearly costs of housing ownership equal the yearly rent charged. We can analyse this relationship in another way: yearly rent minus the yearly operating expenses of ownership can obtain the housing price from equation 1:

$$V = (R - E_o) / (i + s) \quad (4)$$

This equation shows the relationship between total housing price and yearly rent charged. When V and R have the relationship in this equation, people will be indifferent between renting and owning their housing. The principle of the housing price to rent ratio expressed in this equation can be explained in this way: if developers set a selling price V higher than the level of indifference to rent, people would not purchase their own housing. There would be no home ownership. If the selling price V is set lower than this level, all people will decide to purchase their housing. This means that the selling price can be determined on the present value of rents paid for a number of years in future, and conversely the rent can also be calculated based on the prevailing selling price (see equation 1).

Analysis of the relationship between the preferential price and the present rent system

Although the low rent system still dominates China's housing system, the principle of the housing price to rent ratio plays an important role in people's choice between purchasing housing and renting. However, user cost (yearly housing price) performs a different function than determining yearly rent. Tolley argues that since the rental rate is set preferentially at an amount insufficient to recover housing costs, people will choose to buy only if the house value is reduced sufficiently so that the user cost of owning compares favourably with the rent charged (1991, p. 34). This means that the low rent

forces the housing price to be reduced, otherwise people would prefer renting rather than buying their housing.

We can apply this principle of housing price to rent ratio to investigate the situation of tenure choice between housing purchase and rent in China. Since the rent reform was carried out all over the country, the rent for public housing has been raised from 0.1 yuan per square metre per month to 0.4 yuan per square meter (Gu Yunchang 1995, p. 7). This means that the yearly rent per square meter is 12 times 0.4 yuan or 4.8 yuan. Based on the research of IFTE and IPA (1996, p. 146), we adopt the lowest housing price of 600 yuan per square metre as the preferential selling price in the internal housing market and assume the construction space per unit is about 60 square meters⁸, of which, 70 percent is the usage space - 42 square metres - for calculating rent charged. According to equation (4), $V = (R - E_0) / (i + s)$, so with an interest rate i of 10 percent for a year term deposit, and a 50 year depreciation rate s of 2 percent, then the yearly rent charged should be 42 times 4.8 yuan or 201.6 yuan per unit, and the housing price V should be 1680 yuan per housing unit. In this calculation, E_0 is ignored because it is impossible to find an accurate parameter and housing price V low enough to explain the relationship with the preferential housing price.⁹ Therefore, ignoring E_0 does not have a significant influence on the research result.

Compared with the housing price of 1680 yuan calculated on the present rent, the preferential housing price in the internal market is 60 times 600 yuan or 36,000 yuan. According to the equation $R = iV + sV + E_0$ (E_0 neglected), if we use the preferential housing selling price of 36,000 yuan to compute the rent, then the yearly rent charged should be 4320 per unit compared with the yearly rent of 201.6 yuan charged under the

⁸This construction standard per unit is less than that of the standard commercial housing (65 square meters per unit) and higher than the state-set criteria (55 square meters per unit).

⁹ If operating expenses, E , are small relative to rent, then E can be neglected, and the purchasing price that will be paid will vary in direct proportion to the rent (World Bank Report, 1992, p. 46).

present rent system. Based on these assumptions, families buy their own housing only if the preferential housing price of 36,000 yuan is reduced to the housing price of 1,680 yuan or if the rent is increased to 4,320 yuan. Otherwise, families prefer renting rather than purchasing their housing.

In fact, the preferential housing price is only one third of the average housing price in an open housing market. However, even under these circumstances, rent calculated on the preferential price is still 21 times the rent in the present low rent system. Not surprising people do not want own their housing even at preferential prices. The simplest example can make this situation more clear. If one puts 36,000 yuan in a bank for a term deposit for one year, at an annual interest rate of 10 percent as we calculate the rent, a year's interest 3,600 yuan can be used to pay more than 10 years' rent at the present calculated rent level.

According to the above discussion, the low rent level has not given any incentive to encourage people to purchase their own housing. The process of housing privatisation in China is therefore very slow. As a result, on the one hand, enterprises have to give more subsidies, as their employees' living standards improve. On the other hand, the housing shortage is still an urgent issue which needs to be solved. It is said that more than 4 million households have housing shortages in term of living space (under 4 square meters per capita), of which, 288,000 households are living in under 2 square meters (Wu Weiyu, 1995, p. 10). It is estimated that by the year 2000, 8 million households will have housing shortages (The Leading Group of Housing System Reform under the Jurisdiction of the State Council 1994, p. 56).

This housing situation is caused by the imperfect low rent system reform. Employees' housing consumption still depends on subsidies. Kornai describes the situation in Hungary as follows: "In our view every effort directed at eliminating shortage on the supply side - while maintaining the nominal rent - is hopeless. ... Demand for housing is

almost insatiable" (1980, p. 503). At present, China faces the same situation. Housing shortages should be overcome by speeding up the rent system reform, and setting up a rational housing price in the internal housing market. Past experiences have proven that the lower the rent charged, the less will be the price people will be willing to pay to purchase housing. Therefore, setting a rational rent is the key issue to stimulate housing ownership and to reduce the housing shortages.

6.2.3 Two gaps in the housing market - a theoretical analysis

After years of housing system reform, two housing markets exist in China: one is an internal market, in which work units or housing bureaus supply their employees or urban residents' housing with heavy subsidies; the other is an open market, in which anyone is allowed to purchase housing according to housing market value.

In the internal housing market, the old housing system has not been fundamentally reformed and a market mechanism has not been set up. The only way to solve the housing shortage is to depend on huge investment in housing construction. All actions the Chinese government has taken focus on the collection of housing construction capital, while the system transformation has been ignored, although some new policies have been formulated. As a result, the rent level is still very low and is less than half of the housing maintenance fee. Although the government tried to sell housing to employees at a preferential housing price, they prefer renting rather than purchasing housing because they will lose benefits from enterprises after buying their own housing. Under the low rent system, people do not make a reasonable contribution to housing themselves, while governments and enterprises cannot provide more money to build more housing. Housing shortages are an unsolvable problem.

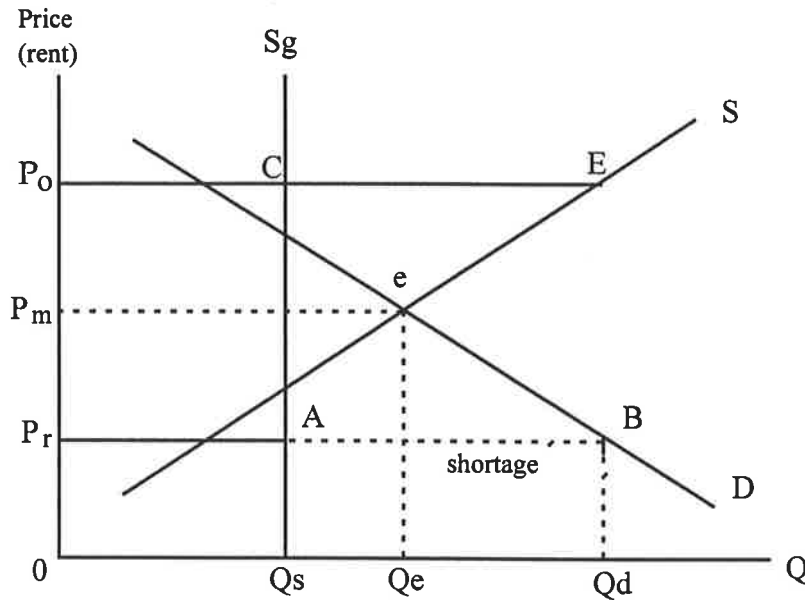
In the open housing market, the PIR is too high to be afforded by ordinary people so that there is a lot of unsold housing. In 1993 there was unsaleable commercial housing

of 17 million square metres. In 1994, it was 32.89 million metres. By the end of 1995, 50 million square metres of "commercial housing" were waiting for sale. This amount accounts for 40 percent of total housing construction (Wang Wenbin, 1996, p. 34). On the basis of a square metre costing 1600 yuan, which is the lowest average price in the present opening housing market, 80 billion yuan of dead capital stagnates in the open housing market. This situation, which is caused by irrational housing prices, results in an "insufficient demand for commercial housing". This creates a big gap between supply and demand in an open housing market.

During the period of the housing system reform and real estate development, therefore, on one side is a shortage of housing supply under the low rent system in a internal market and on the other side is an insufficient demand for housing in an open housing market.

Figure 6-2 illustrates the situation of the present internal housing market in China. The supply curve S shows what a builder wishes to sell, and the demand curve D shows what consumers wish to purchase at various prices. When the two are put together, we see that there is only one price P_m at which the quantity of housing firms wish to sell exactly equals the quantity of housing consumers wish to purchase. The intersection "e" identifies the equilibrium price and quantity in a free housing market.

Figure 6-2 The Two gaps of supply and demand for housing in China



However, in the internal market, supply curve S_g is vertical which is inelastic, because the government or work units only invest in housing construction as a welfare good to produce quantity Q_s . The price P_r at point A is the present rent level with heavy subsidies under the low rent system. According to the low rent level, the P_r intersects the demand curve D at B. The actual demand is Q_d . Therefore, the housing shortage $Q_d - Q_s$ (AB) occurs under the low rent system.

The housing shortage in the internal market attracts a huge investment in housing plus a high fee collection by various levels of governments in open housing markets. At present it is impossible for building companies to reduce construction costs through improvements in production efficiency and because the high levies and the high rate of interest loan for real estate companies. The supply E at price P_o is beyond the affordability of ordinary urban residents. Therefore, the "insufficient demand gap" in the open housing market is EC.

The Two gaps are caused by the distortion of housing prices. Setting up a rational housing price is the key issue in establishing a housing market in China. In the internal market, rent reform should speed up so that rent reaches market level "e" (see Figure 6-2) in order to let market forces play a role in adjusting the supply of and demand for housing.

Because of the low wage system it is difficult to reduce to the total subsidies during the housing system reform. Wage adjustment is a prerequisite for raising the present rent level to a market level. An alternative method is to transform housing price subsidies from "implicit subsidies" to "explicit ones" to cushion the social impact. This could clarify the relationship between the provider and the beneficiary of housing subsidies. Furthermore, it will create an efficient way to increase the tenants' contributions to house themselves and to rationalise housing prices as a real indicator reflecting demand and supply, households' real demand and their hard budget constraint.

In the meantime, the housing price in the open market should be reduced to "e" in order to realise real equilibrium. The items for calculating housing construction cost should be rationalised and the housing price should approach a suitable ratio of the housing price to household income. Gradually, the two markets can be merged into one and the intersection of supply and demand will determine the equilibrium "e". Housing price and production quantity would then be adjusted on the principle of the market economy instead of the present irrational housing systems.

6.3 Clarification of property rights in urban housing

The issue of ambiguous property rights is one of the most fundamental characteristics of the planned economy system. Clarification of property rights is a fundamental task of economic system reform. Under the centrally planned economy, a major cause of

economic inefficiency is that property rights are often ill-defined or administratively and arbitrarily restricted. The universal criticism of the concept of "ownership by the whole people" is that property under such ownership is owned by no one and therefore misused and difficult to manage. The economic benefits of well-defined property rights are to minimize transaction costs in the economy, to facilitate the governance of contractual relations over time, and to allow the emergence of organisations that are efficient and adaptable to a changing economic, technological, and social environment (Renaud, 1991, pp. 39-41).

The issue of property right reform had been given little attention among policy makers in the early stages of urban housing reform. At that time, the urgent task was how to mobilise more capital to increase the housing supply. As a matter of fact, property rights was not put on the agenda of urban housing reform even though any reform cannot achieve its goal without a legal framework for property rights. The nature of property rights reform is to break through the monopoly of public ownership and to protect housing investors', or buyers' property rights in order to establish a market-orientated economic environment with a new set of legislation for urban housing ownership.

Housing system reforms include establishing clarified property rights over urban housing among the government, enterprises and individuals. In China, the housing system reform started based on solving housing shortages. The targets of the reforms focused on decentralisation of investment in housing, increasing the channels of finance capital and raising rent. Therefore, the issue of ambiguous property rights over urban housing was neglected.

At the present stage, the reform cannot continue to be implemented without reform of property rights. Before the issue of housing property rights in China is discussed, however, we should firstly clarify what is the real meaning of property rights in a market-oriented economy.

6.3.1 Property rights in a market economy

Property rights are one of the important elements in commodity transactions in a market economy. Property rights are legally defined and enforceable rights which relate to the ownership and use of resources and commodities. Pryor defines property rights as "a bundle of rights or a set of relations between people with regard to some goods, services, or 'thing'; such rights must have economic value and must be enforced in some recognised manner" (1972, cited in Lee Keun, 1991, p. 20).¹⁰ Therefore, all active approaches to property rights in a market economy place stress on the fact that property rights tend to affect incentives and economic behaviour. Furubotn and Pejovich state that "property rights do not refer to relations between men and things but, rather, to the sanctioned behavioural relations among men that arise from the existence of things and pertain to their use" (1972, p. 138). Hence, individuals are able to sell goods and services directly to each other, and when such a transaction takes place there is not only an exchange of some physical quantity of the good but also an exchange of the rights to use that good in certain ways sanctioned by the legal system (Bannock, Baxter and Rees 1985, p. 359). The bundle of rights varies among countries. It can include over 100 specific items in some countries (eg. Sweden). Any particular right can be transferred and traded independently (IFTE and IPA, 1996, p. 100).

There are two important subsets of property rights: income rights and control rights. Income rights are the right to use particular goods or services to obtain income, either monetary in the form of goods or services, other than by means of labour. The income

¹⁰ Barzel defines the concept of property rights as follows: "Property rights of individuals over assets consist of the rights, or the powers, to consume, obtain income from, and alienate these assets. Obtaining income from and alienating assets require exchange; exchange is the mutual ceding of rights. Legal rights, as a rule, enhance economic rights, but the former are neither necessary nor sufficient for the existence of the later." (1989, p. 2). The alienation right is included in the control right over assets, which has a wider meaning. Furthermore, under current circumstances, the economic right could not be protected and realised without legal rights. Therefore, we adopt Pryor's definition in the following discussion.

derived from the holding of these rights can be obtained through particular types of levies or by using the goods or services to produce something that can be exchanged for money. Control rights are the right of use and disposal of goods or services with regard to production and exchanges and is sometimes called a decision-making right. Control rights may be either directly used by the owner of a property or delegated to others by the owner (Pryor, 1973 cited in Lee Keun, 1991 p. 23).

Lee Keun points out that income rights usually involve the responsibility of taking risks with the exercise of the rights. In this case, the owner bears the value consequences of exogenous events, as well as of his own decisions associated with his property. Control rights concern a voluntary transfer or disposal right, which means that the owner can sell his property rights to somebody else. A combination of risk-bearing income rights and transferable control rights is necessary if resources are to be allocated to their highest valued uses regardless of initial assignment, as long as transaction costs are zero (1991, pp. 21-25).

The property right over housing is one of the most complicated property rights. There are four dominant forms of property ownership in a market economy. We summarise the main characteristics below (Johnson 1989, p. 23 and IFTE an IPA, 1996, p. 102).

First is sole proprietorship, which is exclusive ownership right over a property and holding of a title to all of the assets and responsibility for the liabilities. Sole proprietors can be individuals or legal entities such as government institutions. Sole proprietorship is a popular and major form of ownership rights over urban housing.

Second is partnership, which has more than one owner and two forms. One is general partnership, under which all partners share in the rights, duties, obligations and financial rewards in accordance with the partnership agreement. However, the partners' personal liability for the debts is unlimited. The other is limited partnership. Most important, the

liability of limited partners for losses and debts is restricted to the amount of their original capital investment. As the high cost of land and housing makes group ownership more easy to operate than individual ownership, the partnership is a very common form of association in real estate.

Third is the corporation, which is a legal entity empowered to own property, to contract debts, and to engage in certain activities. The corporation owners (the stockholders) share dividend payment and their liability is limited to the amount of their investment. This form of ownership makes it easier to attract funds for large scale investment, and help the small investor with no experience benefit from the profits created by specialised management.

Fourth is the real estate investment trust, which is a specialised trust fund that invests in real estate exclusively and accumulates idle funds in society through issuing bonds. There are three methods for investment, either directly, through mortgage funds, or both. It is convenient for small investors to join in a large real estate operation.

In the light of the above discussion, a property right to housing has at least the income rights and is exchangeable in a market. Property ownership has multiple forms and reflects economic and legal relationships among people in a market economy, in contrast to the abstract concept of public ownership in socialist countries. The clarification of property rights is required for the development of the housing market.

6.3.2 Property rights over urban public housing in China

In this section, we focus on property rights over public housing because property rights over private housing have been basically restored since economic reform and are, to a certain extent, influenced by the property right over public housing. Moreover, private housing only accounts for a small proportion of the total amount of urban housing. If

property rights over housing in China are not guaranteed, it is impossible to realise urban housing commercialisation and privatisation.

As discussed in Chapter 3, public ownership of urban housing in China was built up through urban housing nationalisation. Public housing was set up based on denying private property rights including income and control rights. During the period of housing control and administrative distribution, ambiguous property rights became a source of urban housing problems, such as the inequality and inefficiency of housing investment and distribution.

In 1995 Chinese urban public housing accounted for 80 percent of the total urban housing stock (Cao Zhenliang, 1996, p. 18) and is of two major types: one is "directly controlled public housing" under the city housing management bureaus; the other is "self-managed public housing" under the management of various work units such as enterprises, institutions and others.

In terms of directly controlled public housing, the property rights are quite ambiguous, because most of the housing is built and distributed by local governments, then entrusted to local housing bureaus for maintenance and management. The bureaus have no rights of disposal over these properties, and the government has never clarified whether the property right belongs to the central or local governments or others. Work units occupying the housing have the right of housing allocation. Consequently, the control right, one of the important property rights in a market economy, is separated from the property owners in directly controlled urban housing.

In terms of self-managed public housing, the property rights are more complicated. For example, according to ownership, the housing of the state-owned enterprises should belong to the government, because all investment comes from the fiscal budget and the levels of government are the representatives of public interests. The various levels of

government who invested in housing did not have the right to make a decision on how to distribute the housing, and they never cared who controlled the properties. As a result, who has the control rights over the self - managed housing is uncertain.

The issue of the ambiguous control right over the property is one concern. The more serious problem of denying the income right over the property is the other. The investment in urban housing comes from the fiscal budget in China, and the return on housing investment should be through the rent. This is a basic income right for the investor. However, due to the ambiguous property rights, not only do the investors not get the investment return through the housing lease, but also because of the low rent system, the more the investment, the more subsidies for urban housing the governments or work units have to defray. Housing investments and subsidies have become a heavy burden for various levels of government and all work units. There is no legislation to guarantee a rational return to the housing investment. As a result, the inefficiency of housing investment results from denying income rights over property, which is rooted in the traditional housing systems. Therefore, the income right over housing property should be clarified along with the rent system reform. Housing system reform cannot attain its goal without clarifying and protecting property rights, especially the control and income rights.

6.3.3 The implications of clarifying property rights over housing for the reform

The aim of housing system reform is to realise housing commercialisation through transferring the welfare system of housing distribution to a housing system based on a market oriented economy. Obviously, property rights are an unavoidable issue during the transition because all trades in a market economy are carried out on the basis of transfers of a bundle of rights.

Property rights among governments and enterprises

According to present regulations for property rights, sales of housing, will create a new inequality among work units. Work units with more housing can have more income and reduce housing subsidies from the sale of housing. Hence, they can reinvest in housing construction to improve their employees' living standards. Work units with less or no housing for sale will still have to pay wage compensation as rent increases. So, resolving the questions of who should own the income from the sale of the self-managed public housing and how to redistribute the income involves clarifying the property rights of the self-managed housing. Otherwise, the inequality of housing investment among the work units will be worse.

In fact, all investments in housing in state-owned enterprises and institutions was provided by the government during the period of the centrally planned economy. In the meantime, these work units have paid a lot of housing subsidies, maintenance and management fees since the housing was built. In particular, some expenditures on self-managed housing came from retained profit, self-financed funds and other investment channels. Consequently, it is not easy to judge the division of the property between the work units and the governments on an administrative basis. At this stage, therefore, the clarification of property rights is very important for continuing housing system reform in work units. For example, in Jiangsu province, 85 percent of the income from housing sales has become fiscal revenue for the central or local government, depending on which level of the government the work units belong to (Ji Lantian, 1995 p. 43). Undoubtedly, this situation will make the housing sale more difficult because work units have a different attitude towards the share of income from housing sales, based on their own opinions of housing property rights. They might well seek to retain a higher proportion of the return for themselves.

Property rights for housing buyers

As regards rent system reform, property rights is one of the most important aspects for both the establishment of a housing market and the privatisation of urban housing. In China, tenants in public housing have more rights and benefits than in other countries. Once employees have obtained distributed housing, they have rights in virtual perpetuity to live there, to pay rents below market level, to pass the housing on to their heirs, and to lend the housing free to others. In this respect, work units and real estate bureaus do not have control and income rights over the housing. The property rights of work units or housing bureaus are only nominal in rental housing. The IFTE and IPA Report explains that experiences of various countries have proved that the demand schedule for home ownership is affected by the de facto ownership rights given to tenants, the stronger the tenancy rights, the higher the tenancy rate, and vice versa. This is because relatively strong tenancy rights let tenants enjoy more services and benefits (1996, p. 98). Developing this idea to a logical conclusion, in China unclear property rights lead people to prefer to rent rather than to own their housing, which becomes a major obstacle to encouraging them to purchase their own housing.

Without a legal system of property rights to protect the interests of investors, it is impossible to set up multiple financial channels for housing investment, and to make individuals contribute more from their savings to housing themselves. The reason is that the incentives for the purchase of home ownership is limited by the de facto ownership rights given to tenants and by the limitations and ambiguities relating to owners' property rights. The current situation of property rights in China therefore reduces the amount that households are willing to pay to purchase their own housing to a fraction of the value that would be paid if property rights were similar to those in a market economy. According to a survey of willingness to buy housing in urban areas, Tolley argues that the property rights that currently prevail in China reduce the amount people are willing to pay to purchase housing to 58 percent of the value that would otherwise

be paid (The World Bank Report 1992, p. 47). No-one would buy their housing without guaranteed property rights. At the present stage of the reform, the ambiguous property rights and the low rent system impedes the commercialisation of urban housing.

Therefore, property rights are an unavoidable issue, because housing sales are an integral component of housing system reform. In terms of the present policies for housing sale, private buyers meet a lot of restrictions on their property rights. For example, a regulation for housing buyers on how to use their property rights was passed at the Third National Conference on Urban Housing Reform in 1994. If households buy their housing at a "standard price" (the price in the internal housing market or set by employees' work units), they are not allowed to sell or lease their housing for five years after their purchase, and work units have the priority of either buying or renting the rights when households want to sell or lease their houses after 5 years. The earnings from the housing sale should be distributed between the work unit and buyer according to a certain proportion (The Leadership Group in Charge of Housing Reform under the State Council 1994, p. 8). Under these circumstances, individual buyers have neither a real control right nor an income right. Few people would like to invest their money in a housing asset over which they do not have full rights.

In the light of the above discussion, on the one hand, the clarification of property rights among governments and work units is an urgent task for stepping up urban housing system reform. In the terms of private housing sales, on the other hand, what needs to be removed immediately is the "web of laws and administrative regulations that are systematically biased against the free and effective use of private property" (Renaud, 1991 p. 41). Otherwise, it is impossible to set up a housing market, realise housing commercialisation and privatisation.

At present, China only has two simple kinds of property rights for urban housing: public ownership according to socialist ideology and private ownership with limited rights.

Actually, in a market economy, the types of property rights over assets depend on the method of management, and multiple forms of ownership and diversification of property rights are good for the competition mechanism. Therefore, combined with clarification and legalisation of housing property rights, the development of multiple forms of housing ownership can stimulate the speed of urban housing reform.

6.4 Establishing an independent housing management system

For years, Chinese urban housing reform did not change the old housing supply system at all, except for a small proportion of housing for sale in an open market. The majority of employees still rely on housing supplied by their work units. The production and consumption of urban housing has not become commercialised. Therefore, the management system for urban housing has not fundamentally changed.

Although the issue of the housing supply system has been raised as an important aspect of urban housing reform since the beginning of the reform process, the central government has not paid much attention to solving it. As a result, the proportion of housing under work unit management accounts for more than 70 per cent of total housing stock, and in the open housing market most of the newly built housing is bought by work units. Housing sold at a market price still falls into the welfare system of work unit housing management because work units buy housing at market prices and manage it with heavy subsidies.

This section discusses the effect of work units supplying housing as an in-kind benefit, why an independent system of housing management should be established, and how the housing supply of urban residents can be separated from their work units.

6.4.1 Work unit housing: a historical legacy

Work unit housing, i.e "self-managed" public housing, was the creation of the central planned economy. Under the traditional system, employees had to rely on their work units to distribute what they needed for their family living, instead of buying consumption goods on the market and the work units had to run a community. It supplied health insurance, a kindergarten, schools, public bathrooms, transportation and other facilities. Housing had to be supplied by work units for their employees. However, the work units did not have the right to make decisions over building their own housing because of the distribution pattern of profits.

Enterprises had to hand in all their profits and depreciation funds to the government for redistribution of national income according to the national plan. For the institutions, there were no independent resources for constructing housing except the money coming from the government budget. About 90 percent of housing investment had to depend upon fiscal budget appropriations (IFTE and IPA 1996, p. 111). After the housing had been built, the work units owned it and had rights to distribute it. This kind of housing was the dominant form of public housing in urban areas. As a result, work units had to maintain the housing, investing a lot of money and only collecting low rent. Therefore, work unit-owned housing became a big burden. An important aspect of housing reform is to shift work unit-owned housing into the housing market, relieving work units from the responsibility of housing supply.

6.4.2 Issues caused by the present housing management system

It is impossible to reform the system of housing production and distribution without changing the old housing management system. However, the decentralisation of housing investment without the reform of the housing management has strengthened the old housing system under work unit management. So, there is a dilemma between the

present urban housing management system and housing commercialisation. Some scholars point out that the social functions of enterprises, especially managing housing, is one of the main obstacles which restrict the efficient operation and development of state-owned enterprises (Li Ruxin, Xing Xiude and Qi Banxin 1997, p. 79). Therefore, housing management reform has been one of the main tasks in housing system reforms.

1. The inequality of the housing distribution among work units after housing reform.

Under the centrally planned economic system, there was inequality of housing distribution among work units. As discussed before, in that time, housing budgets were approved by the government administration through a top-to-bottom process. Higher-ranking work units could get a larger housing budget than a lower-ranking work units, due to their more effective influence on the central and local government. As a result, state-owned enterprises or government organisations were stronger than collective-owned enterprises in "regime-bargaining".

Although this situation has changed tremendously since the reform, this inequality of housing distribution still exists. After the decentralisation of housing investment, the capability of housing supply for employees depends on the enterprise's retained profits, welfare funds, depreciation funds and other financial channels instead of the government budgets. For institutions, the capability to supply housing for staff depends on appropriations from the government budget on one hand, and self-raised funds on the other. As a result, a new pattern of inequality in housing distribution has appeared.

Now, inequality of housing consumption among the various work units is caused by the great differentials of welfare and real income among them. So, when people are searching for jobs, they choose not only between state and collective units, but also between work units with different chances of supplying housing. The report by IFTE and IPA states that the power of work units to control public housing and workers' reliance upon their workplaces as the main suppliers of their housing has become

stronger than before the housing reform (1996, p. 113). That means that after housing system reform, the main housing suppliers have become work units rather than the various levels of governments, and the welfare system has not basically changed.

2. The work unit's burden - managing housing

The involvement of work units in running housing, welfare and community services is a major source of inefficiency. As main housing suppliers to employees, work units not only have a heavy burden of subsidising housing consumption, but also run the whole process of building housing for their employees - from financing and distribution to maintenance. In terms of financing investment in housing, as well as the proportion of depreciation funds approved by the government, work units are often forced to move other depreciation funds from production uses to building housing. This leaves work units with insufficient capital to improve their production technology and weakens their production efficiency.

Apart from the capital issue, a lot of effort has to be put into a housing project in order to go through the process of applying for housing construction, buying building materials, trying to get along well with the different authorities, and avoiding unexpected troubles. In Tianjin, for example, Figure 6-3 show us that for a housing project to start, the application from a work unit is considered by ten authorities and two commissions, and has to be approved by the relevant bureaus and commissions. This process takes at least one year. After the housing construction is finished, work units have to provide regular housing maintenance. Most of the units have a special section to deal with routine housing affairs.

In market economies, financing, construction and maintenance are conducted by real estate companies and their agents. The specialised industry for housing encourages the labour allocation to be efficient and makes the best use of resources. In these terms, the

present system of housing management by work units in China wastes labour and is inefficient.

Figure 6-3 Authorities concerned in a housing project in Tianjin in 1996

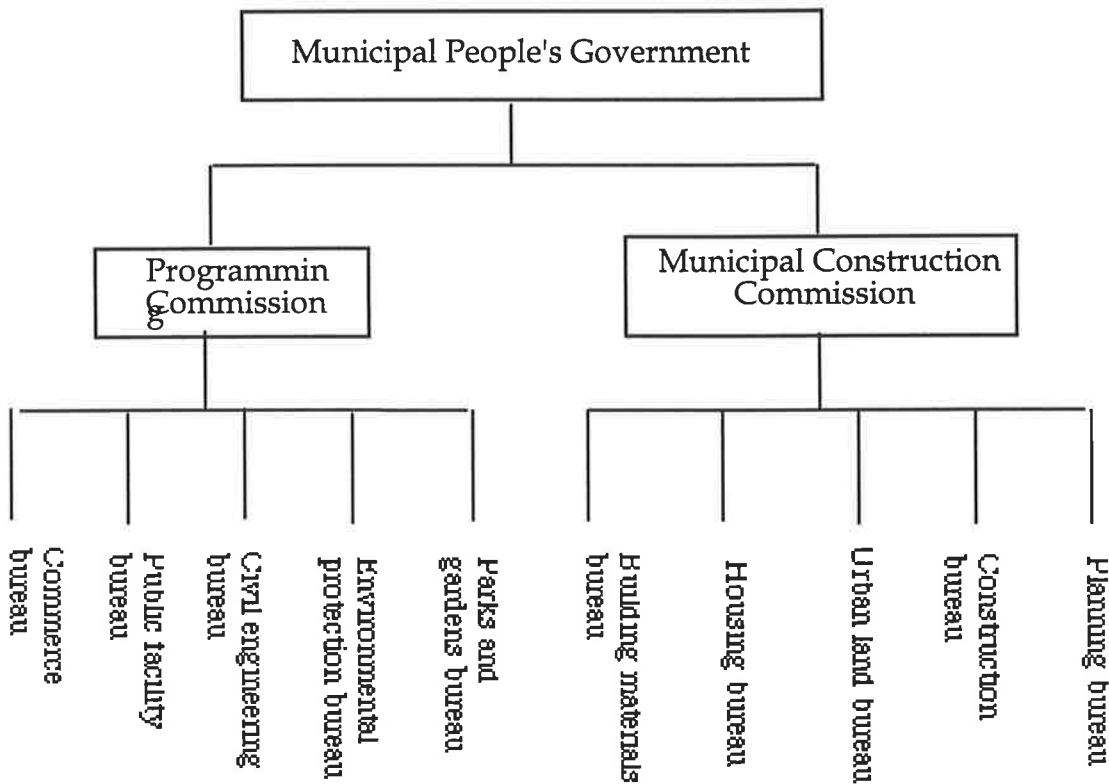


Figure 6-3 shows the administrative structure of Tianjin municipality for applying for housing construction in 1996. There are 12 districts (6 urban and 4 suburban) and 5 counties in Tianjin. Source: author's interviews in Tianjin Real Estate Bureau and Tianjin Urban Housing Reform Office in 1995.

6.4.3 Establishing a market-oriented housing management system

In the light of the above discussion, housing reform cannot be implemented if the present housing management system under work units, which controls most of urban housing stock, is not thoroughly reformed. For years, the most substantial problem with

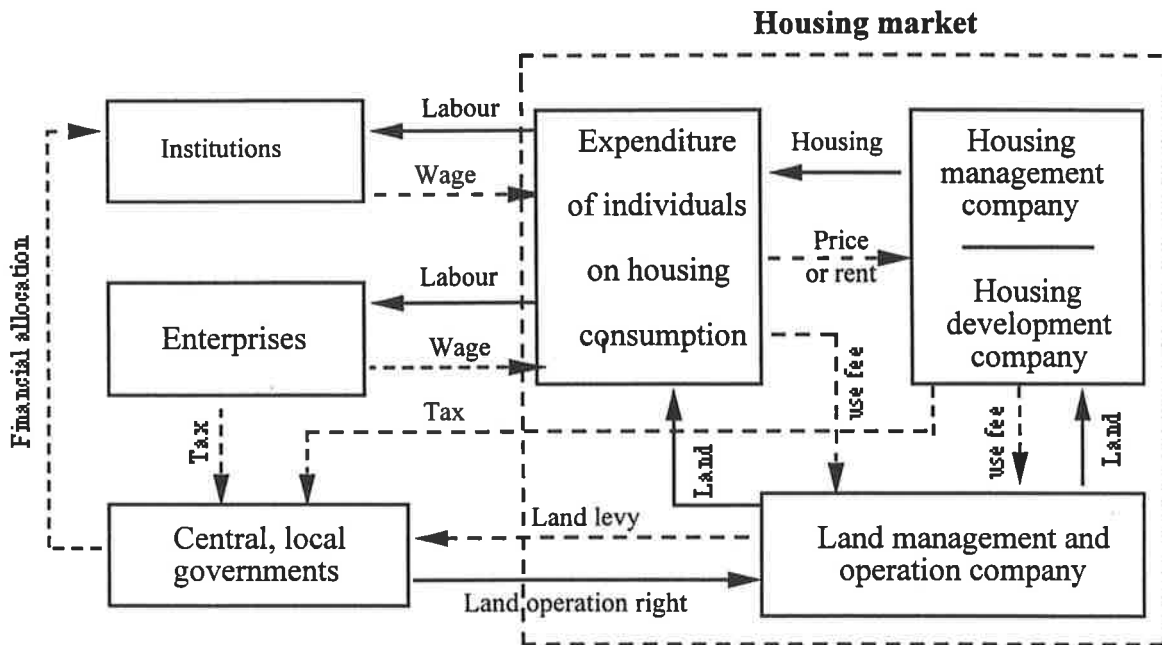
the reform is that it fails to end the dependency of employees on the work unit for housing supply and services. To continue the reform the "umbilical cord" linking the employees to their employer must be cut. How to change the situation of heavily involving work units in housing supply is a key issue affecting the overall process of the reform.

The World Bank Report has recommended that there should be an end to the allocation of enterprise and local government resources to housing construction. Work units should shift from significant reliance on compensation in-kind, including low-rent housing, to higher cash wages and a reform of rents, allowing the latter to approach full-cost recovery levels. These reforms would imply a transformation of the housing production system, with the development of an independent, consumer-oriented housing industry. One option deserving careful consideration is to require that work units divest themselves of all housing, in exchange for taking shares in rental management companies (1991, p. 27 and 54).

With the experience of the market economy and the combination of the present circumstances in China, a better housing management system could be modelled as shown in Figure 6-4, so that housing management is separated from work units and various levels of governments. In that way an independent real estate industry can be established.

In Figure 6-4, enterprises pay tax to the government. Then the government makes a financial allocation to institutions, which are non-profit work units such as universities and hospitals. Employees working in enterprises or institutions get their wages, including a reasonable percentage of money to pay the housing price or rent at a market value.

Figure 6-4 A structure of housing production and consumption based on a market-oriented economy



In a housing market, on the demand side, consumers judge and choose buying or renting their housing by themselves depending on their income, preference, and other factors. On the supply side, the real estate companies provide housing and services at a commercial price or rent, instead of at the low rent or "preferential price" for housing sale in work units. Because of different administrative institutions set up in different cities or provinces, the housing management companies and housing development companies may be two entities. The former manages existing housing stocks and maintains them; the latter builds new housing and sells it or transfers it to the former. Therefore, they all pay taxes to the government. The role of the land management and operation company, who represents the municipal government, is to lease urban lands and to charge fees for the right of use of urban lands from real estate companies and private housing owners, and then hand in the revenue or levy to the government.

Therefore, Figure 6-4 shows us a new housing management model based on a market-oriented economy. The rectangle presents a housing market without work units'

subsidies and government housing control. Urban residents can get access to buying or renting their housing in the housing market rather than waiting for housing distribution from their work units. Housing companies can get profits by their business operation rather than depending on government financial allocation.

Establishing a new housing management system needs wage system reform and other relevant adjustments in the national economy. Otherwise, it is impossible to set the price for housing sale and rent at a proper level to cover housing costs. It is an urgent task to establish a market-oriented housing management system in order to solve the inequality of housing distribution among work units, to relieve the burden on work units and improve their efficiency, and to correct irrational housing prices and low rents.

6.5 Promoting the development of a housing finance system

Housing finance has been defined by the United Nations as follows:

money provided by any source other than the residents or builders of the dwelling for the construction or purchase of housing. It includes construction funds loaned to builders and mortgage funds loaned to individual families by private or public banks and by a wide variety of other types of financial institutions (The United Nations 1974 cited in McGuire, 1981, p. 51).

Developing this meaning of the definition to its logical conclusion, housing finance could attract money to flow into the housing sector in order to increase the housing supply and promote the development of the housing industry.

The main barrier to carrying out a program of housing development for a country is the lack of a sustained and guaranteed source of money. When a nation has entered a period of long-term steady economic growth, however, the residents' expenditure on housing

will increase, which will lead to a growing share of housing investment in total national investment. In that process a housing financial system will develop rapidly.

China has now entered upon a phase of rapid growth of the national economy and a continual improvement of people's living standards, and the amount of housing investment has been increasing year after year. Although multiple channels of financing capital for housing have been adopted, the amount of demand for housing investment is far beyond the amount of money available under the present financing system. The current financial system fails to suit the situation. There are three crucial issues for the financial system: firstly financial institutions, channels and instruments do not fit the requirements of a long term investment in housing; secondly, the financial mechanism does not guarantee a benign circulation of housing investment; thirdly, there are no specific institutions for consumers to negotiate a mortgage loan. Therefore, establishment of a market-oriented financial system is one of crucial tasks in deepening the reform of the urban housing system.

6. 5. 1 Limited range of housing financial system reform to date

Before the housing system reform, there were no financial institutions, channels and instruments for housing investment. Limited capital for urban housing construction came from government budgets and was managed by banks. Financial institutions were actually the agencies of the government at local levels.

During the period of economic system reform, the financial system in China has changed. In 1978, some financial intermediaries were authorised to provide some short term loans to state-owned real estate companies to develop commercial housing for sale in the open housing market. Then, in 1982, more financial institutions started to set up special sections in their institutions to conduct business deposits for housing.

Since 1987, the development of financial housing institutions has been substantial. In 1987, two local specialised housing banks were established in Yantai, Shandong province, then another was set up in Bengbu, Anhui province in the following year. These were experiments in financial system reform to meet the demand for housing finance. In 1989, the People's Construction Bank of China issued the "Provision for Employees Housing Mortgage Loan" (IFTE and IPA 1996, p.126, and World Bank 1992, p. 106).

The most important achievement in establishing new financial channels for housing was the establishment of "housing provident funds" first in Shanghai as a trial in 1990. Then these were implemented all over the country as one of main goals of the urban housing system reforms for building up a steady and rational source of investment for housing consumption which combined enterprise and employee contributions.

Although there have been some achievements in housing financial system reform, compared with the demand for housing investment in China, the functions of the current financial intermediaries are not suitable for the development of housing production and consumption. The main issues in the present financial system are as follows.

1. High down-payment far beyond the affordability of households

Under the regulations for granting a home loan from banks, the loan to housing price ratio is 50 per cent, that is, there is a minimum downpayment of 30 per cent of the total housing price that the borrower has to pay up front (The Leading Group of Housing System Reform, 1994, p.45). In fact, borrowers also have to keep a certain deposit, which is no less than 20 percent of the housing price in the bank until the mortgage is paid off, only then can they be granted a loan. This means the borrowers can not get a home loan until they have 50 per cent of the housing price in the bank. The

requirements of a high saving ratio for a home loan makes it impossible for most people to put this much money in the bank at once.

2. Short maturity of home loans

In terms of a home loan for housing purchase, the loan maturity is limited to a very short period of 10 years according to the guidelines of The People's Construction Bank of China (Leading Group of the Urban Housing Reform, 1994, p.45), or to a period of between 10-15 years which varies among local banks (Wang Zhongrun, 1996, p. 63). Because the low wage system has not been reformed and there is a high loan to housing price ratio, this along with the short maturity time for the home loans greatly limited borrowers. This loan is only suitable for higher income households, accounting for less than 20 per cent of total urban households.

3. Problems in housing provident funds

The system of housing provident funds was implemented in 1991 (The State Council 1991, p. 227). The housing provident funds are defined as an obligation for long-term saving , which is contributed to equally by both work units and employees. Each participant has to set aside 5 per cent of employees' wages as a contribution to the housing provident funds. The employees' contributions are deducted directly from their wage payment. For enterprises, sources for the funds come from housing depreciation, renovation and maintenance fees, while for administrative units, they mainly come from their budget expenditures (The Leading Group of Housing System Reform, 1994, p. 37).

The aim of the housing provident funds is to set up a benign circulation of housing capital, in order to overcome the defects in the existing housing investment system by increasing individual contributions to housing. However, there are still some problems in implementation.

Firstly, the scheme has not been carried out by all work units. A survey of the implementation of establishing urban housing provident funds in 202 cities in 1994 found that 35 per cent of them had not set up housing provident funds. For example, of 12 cities in the Shangyao area in Jiangxi province, housing provident funds were only found in 4 cities. In each of these cities only 10 per cent of total work units had housing provident funds (Zhuang Shaoqing, 1996, p. 9).

Secondly, compared with the present housing prices in the open housing market, the ratio of the housing provident funds to housing price is too low. For individual housing purchase, a family with two employees needs to spend 60 years' accumulation of housing provident funds to buy their own housing in the open housing market, and at least 33 years in the internal housing market. The total amount of the housing provident funds can be only support 1.5 percent of families for their mortgage loan each year (Qian Yingying, 1997, p. 27 and Yi Cheng 1996, p. 19).

Thirdly, housing provident funds are diverted. Although the interest rates for both deposits and loans are set lower than other prevailing rates according to administrative regulation, some of the funds are diverted to commercial purposes for high return. For example, Yi Cheng points out that the interest rate on the funds is 3.15 percent (the temporary deposit rate), but some banks lend the funds at 9.15 percent per year (1996, p. 19). The banks can get 6 per cent of the spread as their return. This use would hurt the benefits and interests of the all participants in housing provident funds.

6.5.2 Establishing an efficient housing financing system based on a market-oriented economy

According to the above discussion, with a high down payment, short maturity of home loans and problems in housing provident funds, the limited range of the housing

financing system reform did not lead to an efficient financing system for individual housing consumption. So far, work units are still the main body for housing investment. The decentralisation of housing investments and multiple channels of housing investment have not solved the problems of housing capital in the long term, - a benign circulation of housing production and consumption. Therefore, the reform of the housing financing system should be carried further in order to provide a effective financial system for the development of Chinese housing production and consumption.

Generally speaking, a housing finance system links together lenders, builders, and consumers. It consists of all the institutions that are essential to sustain the flow of money into and through the housing sector. It is necessarily a very broad network encompassing government regulation on the one hand and individual institutions that mobilise savings and investment capital on the other.

In a market economy, although mortgage loans are provided by a wide range of financial institutions, they can be summarised in four basic patterns: first is the direct route between two individual parties where one lends money to the other. Second is the deposit finance route used by mutual institutions or general banks. Third is the contractual route where households are locked into a savings scheme involving some form of provident funds. Finally, the mortgage bank route where the lender funds mortgage loans through wholesale financial markets rather than the retail deposit market (Renaud, 1988, cited in The World Bank Report 1992, p. 115).

The housing financial system reforms in China need to consider these options and to carry out a broad financial system reform. At the current stage of reform, a reduction of the down payment ratio should be adopted in order to attract more residents to participate in home loans. In the meantime, the maturity period of the home loans should be extended in order to reduce the borrowers' annual expenditure on housing and improve affordability (in India, Singapore and Thailand, for example, the loan to

housing price ratio is 80 per cent and the maturity up to 20 years). The role of the housing provident funds in the financial system must be strengthened and the abuse of the funds prevented. Otherwise, the system of housing provident funds will be weakened and the housing financial system reform will fail.

It is not easy for China in the short term to set up a financial system to provide enough money for the housing industry and long term home loans. The alternative option is to encourage and promote the development of housing cooperatives. In market economies, these kinds of organisations in financing housing can get preferential policies from their governments. The Chinese government should create a good economic environment for the development of housing cooperatives in order to move more savings to finance housing. In the meantime, commercial banks should provide services such as agencies for home loans to help the development of a housing financial system for a market-oriented economy.

6.6 Conclusion

Housing system reform in China has been carried out for 17 years. The new housing system based on a market-oriented economy has not yet been established because the reform has focused on solving urban housing shortages through decentralisation in housing investment, sale of urban housing and raising rents. Four key issues have been discussed in this chapter, which are the main obstacles in the way of housing system reform and establishing a new housing system.

How to set up a rational housing price based on the capacity of residents to pay is the first crucial issue for continuing the reform. In the open housing market, the housing price is too high to be afforded by ordinary urban residents, which results in a large amount of overstocking of newly-built housing - "supply exceeding demand". In the

internal housing market, there is urgent housing demand at the low rent level - "demand exceeding supply". This situation forms double gaps of supply and demand in the Chinese housing market. In fact, the housing price is a mechanism to adjust rational relationships between supply of and demand for urban housing in the two markets. According to the housing price to income ratio and the principle of housing price to rent in a market economy, housing reform in China should decrease the housing price in the open market and raise the rent in the internal market, in order to set a rational housing price and establish a united housing market rather than two separate housing markets.

It is very important to clarify property rights for realising the commercialisation of urban housing in China. For years, ambiguous property rights have become a source of urban housing problems, such as inequalities and inefficiencies of housing investment and distribution among directly controlled public housing, self-managed public housing and private housing. In market economies, there are two most important property rights - income and control rights. Through the housing system reform, people should have rights to get income and to sell or buy their housing, and the housing rights over housing owned by different work units should be clarified. Otherwise, without clear property rights over urban housing, the housing reform cannot continue to be carried out.

Since the housing reform, the reliance of employees on their work units for housing supply has not fundamentally changed. The housing managed by work units accounts for the majority of urban housing. The present housing management system results in a new inequality in housing distribution, and a more heavy burden on work units. Under this housing management system, the housing resources are inefficiently allocated. To continue the reform the "umbilical cord" connecting the employees to their employer must be cut off. Establishing an independent and specialised housing management system can promote the process of urban housing commercialisation. Establishing a new housing management system needs wage system reform and other adjustments in the

national economy. Otherwise, it is impossible to set a price for housing sale and a rent at a market level to cover real housing costs.

How to finance housing is one of main issues in the housing system reforms. At present, a few home loans can be provided for certain urban residents by some banks with strict regulations promulgated by the governments. High down payments with short maturity is far beyond the affordability of households. Housing provident funds as a form of compulsory saving for housing is a good beginning for setting up a new financial system. However, the scheme has not been thoroughly carried out in urban areas. Compared with present housing prices in housing markets, the scale of the housing provident funds is too low and the funds are often diverted. To establish an efficient housing financing system based on a market oriented economy, the experiences in other countries should be adopted. The schemes for housing provident funds must be extended. The alternative option is to encourage the development of housing cooperatives and to promote commercial banks to provide mortgage services.

Chapter 7 Government Role in Urban Housing During and After Housing System Reform in China

7.1 Introduction

Empirical evidence has shown that, before the reform, government housing control did not work well in China and distorted the relationship of housing supply and demand. Since 1980, housing system reform has begun to change this situation. But the question remains: what should be the role of government in China's new housing system? Due to the housing shortages and inequalities of housing distribution caused by the old housing system, some scholars have suggested completely giving up government roles in the urban housing sector, raising rents to market levels, realising commercialisation of housing and setting up a free housing market to solve the problem of the housing shortage and unequal housing distribution (Zhang Wenxian, 1991, and Chen Xiangming and Gao Xiaoyuan, 1993).

As shown in previous chapters China's reform has focused on developing multiple channels of investment in housing construction, with decentralisation of housing investment, sales of public housing and raising rents, step by step, to a market level with subsidies. As a result, average living standards of urban residents have been improved.

However, according to a 1994 survey, over four million urban households still had various housing problems after 14 years urban housing system reform (Wu Weiyu, 1995 and Zhao Guoliang and Wu Zhaohua, 1996). In effect, shortage of housing

investment, inequalities of urban housing consumption caused by unequal distribution of housing resources and lack of affordability for lower income families still exist.

Consequently, some scholars have raised a new task for China's urban housing system reform: establishing a social security system of commercialised housing for low and medium income families who cannot afford or get access to housing (*ahehui baozhang shangpifang tixi yanjiu baogao* [Research report on the social security system of commercial housing] 1995 cited in Hou Jie, 1996, pp. 94-150). This task aims to address housing problems which could not be solved in the newly established housing market. To counter the present housing problems, the central government implemented the 'anju gongcheng' (economic and comfortable housing project, hereafter "anju project") in 1995 (National Construction Department 1995, p. 4). The document issued by the central government called on local governments to take action to solving housing problems in order to promote further housing reform, and called on enterprises and individuals to share the responsibility for the project (details below). The question is whether the new housing system still needs government intervention during and after the housing system reform, and if so what form should it take?

To date, few researchers have done any comprehensive and systemic research on the most appropriate form of government intervention in urban housing in China after government housing control under the central planned economy is reformed. This chapter will focus on the government role in urban housing in China. First, the reasons for government intervention in urban housing during and after housing system reform will be explored. Second, how the Chinese government takes action on urban housing supply and demand through the 'anju project' will be investigated. Finally, from the point of view of the rationale for government intervention in a market economy, the Chinese government's objectives and strategies in the 'anju project' will be explored, and the impact of government intervention in the urban housing sector at the present stage will be evaluated.

7.2 The rationale for government intervention in urban housing in China

China has been experiencing the transformation of government housing control to a market-oriented housing system. Reforming the welfare housing system, however, does not mean giving up government intervention in the urban housing area. Chapter 2 contained a comparative analysis of two housing models: government intervention in housing and government housing control. According to the experience of free market economy countries, a perfectly competitive housing market does not exist. Almost every government has intervened in urban housing in order to solve housing problems perceived by policy makers, and China is unlikely to be an exception. This section, based on China's economic situation, focuses on the rationale of government intervention in urban housing.

Stafford summarizes the reasons for government intervention in the housing sector as follows:

"Housing is treated as an economic good with certain characteristics that pose difficulties in the conceptualisation of the optimal allocation. Difficulties in the separation of consumption and investment elements and the very substantial costs involved in housing may give rise to distributional problems to such an extent that the market mechanism fails and government intervention is necessary" (1978, p. 38).

Developing Stafford's points in his logic, there are two reasons for government intervention in the housing sector: one is the inequalities of income distribution, the other is the limitations of housing market forces. According to the above discussion, the market distributes housing based on effective demand for housing rather than some concepts of housing need. Therefore, government has taken responsibility to house people who cannot afford their housing in order to keep a reasonable standard of living space in its society. In addition, when the housing market is distorted,

governments consider whether to take action to overcome the inefficiency of housing resource allocation.

Government intervention takes place at several levels. In any country, however, regardless of the division of responsibility, it is important that each level should contribute to the improvement of housing provision. "In many countries the roles and responsibilities of the various levels of the central government, regional government, local authorities are explicitly laid down in the constitution or in other legal instruments or can be derived from general constitutional principles" (The United Nation, 1993, p.14).

The main role of central government is to formulate housing policies with clear objectives and to provide the necessary instruments for their implementation including the delegation of the responsibility to regional or local governments. In general, the main task for regional or local governments is that of physical planning and investment in infrastructure. Sometimes local governments are active in the development of urban housing. For instance, central government policy may encourage an active role for regional or local governments, by providing grants or loans for land acquisition policy or giving them many more rights to carry out the policy of urban housing development.

7. 2. 1 The basic theory of the role of government intervention in housing markets in China

In terms of allocative efficiency, economists with neoclassical economic perspectives claim that a market economy is based on an accumulative dynamic, constrained by scarcity, which leads to a bias in favour of economic growth that can best be delivered by the competitive market. Therefore, prices in unconstrained free markets are clearly superior to non-market planning systems in achieving an efficient allocation of

resources (Bailey, 1995, p. 6). Government intervention is only needed where the market fails to achieve an efficient allocation, and a subsidy, for example, is only justifiable in efficiency terms in order to correct market failure.

We have to point out the distinction between housing control by the government under the centrally planned economy and government intervention in housing in a market economy. The former limits housing development in order to achieve another aim such as industrialisation. The latter aims to help the housing sector to increase housing supply and to house low-income families in order to overcome the limitations of housing market forces and the inequalities of income distribution. Therefore, government intervention is not equal to government housing control, and government taking action in urban housing sectors does not mean that the housing control system in China was superior to the new housing system based on a market economy. Instead, if the welfare housing system is reformed in China, it will still be necessary for the government to intervene in the housing sector to cope with market failure and inequalities of income distribution if they appear.

7. 2. 2 Market failure in housing markets

The economic rationale for government intervention in housing depends on the extent to which allocative efficiency can be improved when market failure occurs, and the degree to which market failure can be reduced. However, the condition of a perfectly competitive market is that all product prices should equal their respective marginal costs and fluctuate automatically through the "invisible hand".

1, A general perspective of market forces failure

Market failure occurs when price does not equal marginal cost in the sector of the economy. The market then fails to play its role. It may, for example, be because

economies of scale are so substantial in relation to market size that one producer can supply the whole market. Market competition may also be constrained by imperfect information.

Based on some studies (McGuire, 1981, Grimes, 1976, Burns and Brebler, 1988 and Stafford, 1978), the main points of the failure of market forces will be summarised in order to provide a theoretical foundation for analysing China's present housing market.

In a housing market, the effective demand for housing in static terms is a function of income levels and the price of housing and other goods. Demand for housing is determined by increases in family income, changes in the distribution of income, and the rate of household formation. This in turn depends upon population growth and the size of households. As a result, the demand for housing increases with income and the growth of urban population.

In a housing market, supply depends on the amount of productive resources, such as land, labour, capital, marketing finance, insurance, management and relative services, which determine the expansion and maintenance of the urban housing stock. The housing industry produces a durable good, within the limitation of housing resources. Increases in housing including construction and renovation of existing units is slow, compared with other industries. Therefore, the supply of housing is also relatively inelastic in short term. Some people regard this situation as housing market failure.

2. Externalities in a housing sector

Failure of market forces is explained in the form of existing externalities. The private sector sells many commodities that affect people other than the purchaser. Social costs and benefits extend beyond the purchaser's private costs and benefits and so are external to market prices. These "externalities" lead to allocatively inefficient decisions even if

individuals are the best judges of their own welfare and even if perfect competition exists.

For the public the externalities may be negative or positive. For example, slum housing is associated with and indeed is the principal cause of disbenefits to society. Slum housing breeds disease and passes it on to other areas, so that it impairs urban resident health. In contrast, to improve the urban environment, demolishing slums on a large scale in urban areas yields benefit from the aesthetic appreciation of improved housing, national or local pride stemming from the highly visible nature of the housing, and increased social and political stability expected from better conditions for the poor. In this way, for years, local governments in China have carried out many housing projects to improve urban resident living situations and to ameliorate urban environment.

3. Inequalities of income distribution and housing consumption

Due to the inequalities of income distribution the inequalities of housing consumption always exist. We can examine that inequalities of income distribution cause inequalities of housing consumption in two ways. First, in housing markets, by raising the cost of housing to all consumers, the process of delivering housing services to the poor is made more difficult. Secondly, in capital markets, we can see that the organisation in mortgage markets may deny access to poor families to obtain given standards of housing loan relative to their income. The poor will inevitably find themselves in difficulty in securing finance for house purchase.

Market forces cannot do anything to overcome the inequalities of income distribution and housing consumption. Assisting those families that are too poor to obtain decent housing on their own is one of main reasons for government intervention in housing markets. In order to overcome inequalities of income distribution and housing consumption, "it may be that government is only able to persuade taxpayers to support

the poor if benefits are given in kind rather than cash" (Stafford, 1978, p.44). Therefore, the problems of income distribution enable government intervention in housing market to become necessary.

7. 2. 3 The government's role in urban housing in China

In the light of the economic rationale for government intervention in the housing market, China has a number special characteristics.

1. Natural monopoly in the urban land market

Although China is reforming its economic system based on a free market economy, urban land still is controlled by the central government. According to 'Land Management Law of People's Republic of China (1986), China exercises public ownership land, that is ownership of land by the whole people in urban areas and collective ownership of land in rural areas. For the benefit of public interest, the state can take over rural land for its use according to law. This means that the government controls all the land of the whole country. Due to having the right to take over rural land, the government has an absolute right to determine urban size and urban planning.

Through its monopoly of national land, the government can take action to intervene in housing construction in urban areas, because urban land is one of most important resources for housing construction. Not only do the central and local governments adopt administrative approaches to intervene in urban housing construction, but also they use prices of land use-rights to adjust benefits between housing consumers and suppliers. Land Management Law states that the proprietary right of urban land taken over from collective ownership for urban construction belongs to the state; the work unit that uses the land only has the use-right of the land ("Land Management Law" cited in Hou Jie

1996, p. 875). Consequently, the central and local governments can use its proprietary right over urban land to intervene in urban housing supply and demand.

2. Increasing the positive externalities in urban housing

The second characteristic is that externalities can be negative or positive for society. Uncoordinated construction and consumption of housing such as buildings or apartments in a non-prepared urban area may involve release of pollutants into the environment and spread disease due to improper public infrastructures, such as lack of sewage and rubbish recycling services. The costs of cleaning up the pollution and treating the illnesses that result from this and the working days and output lost due to illness are all examples of social costs. These costs are not reflected in the construction industries' and consumers' cost schedules; they are external to firm costs, and these are external costs or negative externalities. At present in urban construction in China, these events are not unusual. Although local governments do give subsidies for new housing projects, which may be prepared and built by one or several work units or institutions, to benefit the whole urban environment, the government has to appropriate funds to treat the problems caused by improper construction.

In China, the aim of government intervention in urban housing is to generate positive externalities for society rather than negative ones. It may push government intervention to provide planning legislation to ensure the right arrangement and the location of housing combined with environmental health control through a long - term urban planning scheme. It may justify appropriate subsidies to ensure that poor housing does not induce blight and impose external costs on society at large through lower adjacent property values, reduced visual environmental standards, poor health and reduced social cohesiveness.

3. The provision of welfare housing for the poor

Assisting those families that are too poor to obtain decent housing on their own can be done in a different ways. In developed countries, through direct provision of housing, the granting of housing subsidies and the giving of welfare assistance for housing expenditures, governments carry out public programs to take care of the portion of this housing need that is not matched privately. At present, the 'anju project' in China includes these recipients and gives them special treatment (for details see below).

Countries have different standards for the proper percentage of income to be spent on housing. The Chinese government is very concerned about issues of housing affordability for urban households. According to present criteria in China, reasonable rent amounts to 12 percent of monthly family income, or a reasonable housing price in a housing market is equal to 5 to 6 times annual family income (Hou Jie 1996, p. 1198 and 1205). These housing consumption criteria are far beyond the affordability of most urban families. In Chapter 6, we discussed the housing price to income ratio in China. The housing prices in the majority of urban areas are too high for people who work for a salary.

In 1995, the government started the 'anju project' to solve the housing problems for four million families. In China, housing need is defined as the basic or lowest housing standard for urban residents. So-called difficult households with housing problems are defined as these families whose living space per capita is less than four square metres and have three generations in one room, or parents with grown up children above 13 years old in one room, or two households in a room.

7.3 Government intervention in housing - the 'anju project'

The improvement of China's urban housing situation results from the development of national economy in recent years. However the evidence has shown us that economic development alone cannot fully solve the existing urban housing problems. With the speeding up of urbanisation, new housing problems will appear. The Chinese government has taken action in urban housing to treat present and future problems. The 'anju project' started in 1995. This section will discuss what it is happening and how the government plays its role in intervention in urban housing according to the perspectives of a market economy

7.3.1 Economic development and housing problems

With the economic system reform China has achieved rapid growth of the national economy. The development speed in various industries varied during the period of 1978 to 1996. GDP in 1994 is 12 times as much as in 1978. Compared with the wages in 1978, average annual wages of staff and workers has increased more than 7.4 times (*China Statistical Yearbook*, 1995, p. 257). The average increase rate of GDP growth was 9.8 percent per year, and the average increase rate of annual wages was 13.3 percent, the consumption increase rate was 7.4 percent during the period of 1978 to 1994. Considering the price indices of 9.7 percent inflation each year and 16.6 percent of total wage increases each year, the wage growth of urban employees was 6.9 percent each year during this period (*China Statistical Yearbook*, 1995, p. 21).

The speed of growth of the national economy and the rapid increase of employees' income gave more opportunities to speed up the development of housing industry and the housing market. As a result, the average living space for urban residents has improved from 3.6 square metres in 1978 to 7.8 square metres per capita in 1994. However, housing problems are not thoroughly solved. Housing shortages and

inequalities in housing distribution did not disappear with the rapid growth of urban economy in recent years.

As noted above, in 1994, more than four million households had various housing problems. Among these, 280,000 households had a living space of less than two square metres per capita, and 440,000 households had less than four square metres per capita. Additionally, about 40 million square metres of dangerous housing urgently needed to be repaired and about 45 percent of old or simply equipped housing needed to be renovated (Zhao Guoliang and Wu Zhaohua 1997, p.17; and Li Zhendong 1997, p. 13).

The report on 'China Urban Estimation and Planning' issued in 1995 by the Department of National Civil Administration claims that by the year 2000 and the year 2010 China's urbanisation rate will reach 34 percent and 45 percent respectively. The non-agricultural population will account for 24.4 percent and 31.5 percent of China's total population. During the period 1995 to the year 2000, 102 new cities, will be established, 17 new cities on average each year. During the period 2001 to year 2010, 279 new cities will be established, 28 new cities on the average each year. By the year 2000, urban areas will occupy 40,000 square kilometres, which is as twice as the 1996 used urban land areas. Some 3 billion square metres of urban housing will have to be constructed and renovated (Zhao Guoliang and Wu Zhaohua 1997, p.17).

With the acceleration of urbanisation, 400,000 new households with housing difficulties will be created each year until the year 2000. By the year 2000, housing problems for at least 8 million households will have to be solved in order to achieve the goal of urban housing standards - 'xiaokang shuiping' (a moderate level in housing) (Zhang Zhongjun 1995 cited in Hou Jie 1996, p. 94).

In the light of experiences of overcoming social housing problems and assisting the poor with housing in western countries with market economies, economic development

doesn't mean that housing problems will disappear automatically. Based upon market forces housing supply can only meet the effective demand; while housing problems such as shortages for the poor who cannot afford their housing and inequalities of urban housing consumption can only be dealt with by government housing policies.

Some scholars argue that economic growth does not necessarily improve everybody's living standards, or create equalities of housing distribution (The United Nation 1993; Burn, 1988 and Stafford 1978). Stretton has given a succinct explanation for the relationships between economic development and housing improvement, and between market forces and government intervention:

Housing activity in those countries tends to be greatest through the phase of fastest development, but only if it gets deliberate stimulation - it does not happen 'naturally' if left to the market... Countries with big housing programs tend to have faster general economic growth often including faster industrial growth than other countries. There should meanwhile be high priority for aids which help poorer people to house themselves. The town planners who want strict standards, and the market theorists who want no regulation at all, are both wrong. (Stretton 1978, p. 110-114).

Summarising the above discussion, economic development does not improve each person's living standard automatically through housing market forces alone. At present, China's government must deal with three aspects of urban housing problems: firstly, helping the poor to house themselves; secondly, redistributing urban housing to correct inequalities of housing consumption; and finally, properly planning urban housing to meet the rapid increase of urban population and the development of urbanisation.

7.3.2 The strategies and policies for urban housing in the anju project

After 14 years of urban housing system reforms because the Chinese government focused only on establishing a housing market and unfortunately ignored what roles the government should play in the housing sectors some urban housing problems could not be solved. With large numbers of households in need and lots of unsold commercial housing, the Chinese central government became aware of the need to expand its role in solving urban housing problems. In 1995, the 'anju project' started (*People's Daily* 27th February 1995, p. 1). It was the first time that the central government had directly intervened in urban housing construction in order to assist people who could not afford housing or get access to housing through their work units. The 'anju project' will be discussed in detail below, and then evaluated in the following section.

Aim of the "anju project"

The aim of the project was to speed up commercialisation and socialisation of urban housing and to prompt urban housing construction. In the meantime, to provide an example for carrying forward urban housing system reform, the implementation of the project needed government assistance, work unit support and individual contributions. The project is carried out in a planned way, and it places stress on large and middle cities (The Office of the Leading Group for Housing System Reform under the Jurisdiction of the State Council, 20th January 1995 cited in Hou Jie 1996 p. 802).

From the beginning of the project, the Office of the leading Group for Housing System Reform decided the list of cities which suited the project, and the National Planning Committee allotted the quotas of urban housing construction, bank loan, and self-financed fund collected by local governments. In 1995, the project was mainly carried out in the largest cities and capital cities of various provinces, including 52 cities and one enterprise (see Table 7-1). The 'anju project' has been advocated in the country

because most cities need the central government to give assistance such as low interest loans or preferential policies for urban construction to fix housing problems.

Strategies for government intervention

In the light of the discussion of strategies for government intervention in market economies (see Chapter 2), we can summarise housing assistance provided by governments into three kinds. First is supply-side assistance by reducing building costs to increase housing supply; second is demand-side assistance by subsidising buyers or tenants to increase their ability to afford housing; and third is a comprehensive strategy for government intervention in housing by providing various preferential treatments for both supply and demand sides to attain social housing goals.

Division of responsibility in government intervention:

China's 'anju project' adopted a comprehensive strategy for government intervention in housing. The scheme gives assistance on both the supply side and the demand side. According to the scheme, 150 million square metres of housing will be built within 5 years from 1995. The investment for the project comes from a bank loan arranged by the central government and the self-financed funds organised by local governments according to the proportion of four (the central government) to six (local governments). If local governments cannot raise the funds as required, the central government refuses to allot the quota to carry out the project (see Table 7-1).

This policy requires the central government and local governments to share the responsibility for government intervention in urban housing. This policy fits the rationale in the *Housing Policy Guidelines* issued by the United Nations (1993, p. 12). That document states that the importance of the housing sector to the economy as a whole also means that intervention should take place by various means and at several

levels. In every system, it is important that each level should contribute to the improvement of housing provision in relation to its responsibility. In order to achieve optimal results, there is a need for close cooperation between the various levels of governments (The United Nations, 1993, p. 12 - 13).

Supply-side policies

In terms of supply-side strategy, the central government provides various "preferential" treatments for housing construction enterprises to reduce various building costs in order to increase urban housing supply.

The basic approach of the project is that each year the central government will put aside a certain amount of credit in its plan for investment in fixed assets, and together with the local government involvement and local Housing Provident Funds (HPFs) will target the development of economic and practical housing for sell to low and medium income households at cost price.

In the first year, 12.5 million square metres of housing are to be completed, with a total investment of 12.5 billion yuan, of which a quota of 5 billion yuan is set by the central government as approved commercial loans (see Table 7-1). All lending to the 'anju project' are mortgage loans for the builders, with the prevailing interest rates set by the People's Bank of China. The interest rates for the builders' loans will not be allowed to float up and the maximum maturity for construction loans is 3 years.

Table 7-1 National investment plan and loan for trials of "anju project"
in 58 cities and 1 institute in 1995

units: 1,000 million yuan

City	Construction (million sq m)	Investment	Of which: bank loans				Of which: Self- financed
			Total	Construction Bank	Commercial Bank	Agricultural Bank	
Total	12.945	11.925	4.77	3.442	1.278	0.05	7.155
Beijing	0.48	0.75	0.3	0.3	nil	nil	0.45
Tianjin	0.61	0.75	0.3	0.3	nil	nil	0.45
Shanghai	0.55	0.75	0.3	0.3	nil	nil	0.45
Harbin	0.4	0.35	0.14	0.1	0.04	nil	0.21
Qiqihar	0.22	0.175	0.07	0.04	0.03	nil	0.105
Mudanjiang	0.1	0.1	0.04	0.02	0.02	nil	0.06
Changchun	0.26	0.25	0.1	0.1	nil	nil	0.15
Jilin	0.17	0.2	0.08	0.08	nil	nil	0.12
Siping	0.09	0.075	0.03	0.03	nil	nil	0.045
Shenyang	0.37	0.325	0.13	0.13	nil	nil	0.195
Dalian	0.27	0.3	0.12	0.06	0.06	nil	0.18
Taiyuan	0.18	0.2	0.08	0.04	0.04	nil	0.12
Zhengzhou	0.33	0.3	0.12	0.055	0.65	nil	0.18
Kaifeng	0.17	0.125	0.05	0.02	0.03	nil	0.075
Luoyang'	0.2	0.15	0.06	0.03	0.03	nil	0.09
Huhehot	0.19	0.125	0.05	0.025	0.025	nil	0.075
Baotou	0.19	0.125	0.05	0.03	0.02	nil	0.075
Shijiazhuang	0.32	0.25	0.1	0.05	0.05	nil	0.015
Zhangjiakou	0.07	0.05	0.02	0.01	0.01	nil	0.03
Qinhuangdao	0.9	0.1	0.04	0.02	0.02	nil	0.06
Jinan	0.33	0.3	0.12	0.12	nil	nil	0.18
Qingdao	0.33	0.3	0.12	0.08	0.04	nil	0.18
Yantai	0.08	0.075	0.03	nil	0.03	nil	0.045
Hefei	0.25	0.2	0.08	0.016	0.064	nil	0.12
Maanshang	0.07	0.05	0.02	0.012	0.008	nil	0.03
Fuzhou	0.15	0.15	0.06	0.06	nil	nil	0.09
Xiamen	0.17	0.175	0.07	0.07	nil	nil	0.105
Quanzhou	0.07	0.075	0.03	0.03	nil	nil	0.045
Guangzhou	0.28	0.25	0.1	0.1	nil	nil	0.15
Nanchang	0.24	0.2	0.08	0.05	0.03	nil	0.12

Table 7-1 National investment plan and loan for trials of 'Anju Project'
in 58 cities and 1 institute in 1995 (continued)

units: 1,000 million yuan

City	Construction (million sq m)	Investment	Of which bank loans				Of which Self- financed
			Total	Construction Bank	Commercial Bank	Agricultural Bank	
Jiujiang	0.07	0.25	0.02	0.014	0.006	nil	0.03
Hangzhou	0.32	0.25	0.01	0.06	0.04	nil	0.15
Ningbo	0.25	0.2	0.08	0.045	0.035	nil	0.12
Huzhou	0.1	0.75	0.03	0.02	0.01	nil	0.045
Wuhan	0.41	0.35	0.14	0.112	0.028	nil	0.21
Wuchang	0.13	0.125	0.05	0.025	0.025	nil	0.075
Nanning	0.19	0.15	0.06	0.03	0.03	nil	0.09
Liuzhou	0.21	0.15	0.06	0.04	0.02	nil	0.09
Guilin	0.12	0.075	0.03	0.015	0.015	nil	0.045
Nanjing	0.23	0.275	0.11	0.07	0.04	nil	0.165
Xuzhou	0.18	0.125	0.05	0.05	nil	nil	0.075
Changzhou	0.15	0.125	0.05	0.05	nil	nil	0.075
Suzhou	0.13	0.125	0.05	0.05	nil	nil	0.075
Zhenjiang	0.11	0.1	0.04	0.023	0.017	nil	0.06
Changsha	0.25	0.175	0.07	0.03	0.03	0.01	0.105
Xiangtan	0.16	0.1	0.04	0.02	0.01	0.01	0.06
Haikou	0.16	0.15	0.06	0.035	0.025	nil	0.09
Kunming	0.28	0.25	0.1	0.05	0.05	nil	0.15
Guiyang	0.2	0.2	0.08	0.08	nil	nil	0.12
Chengdu	0.26	0.25	0.1	0.05	0.03	0.02	0.15
Chongqing	0.42	0.325	0.13	0.065	0.065	nil	0.195
Xi'an	0.34	0.3	0.12	0.06	0.06	nil	0.18
Baoji	0.09	0.075	0.03	0.015	0.015	nil	0.045
Yinchuan	0.13	0.1	0.04	0.022	0.018	nil	0.06
Lanzhou	0.37	0.2	0.08	0.048	0.032	nil	0.12
Xining	0.01	0.1	0.04	0.025	0.015	nil	0.06
Wulumuqi	0.22	0.2	0.08	0.04	0.04	nil	0.12
Shihezi	0.08	0.05	0.02	nil	0.01	0.01	0.03
Zaozhuang*	0.08	0.05	0.02	0.02	nil	nil	0.03

Note: Zaozhuang Bureau is an enterprise in Shandong province.

Source: Lin Junbo (1995) 'Hope of the Anju Project' *China National Conditions and Power* No. 9; p. 23.

The selling price is based on the cost, including: 1) land acquisition and compensation for resettlement, 2) survey, design and overhead expenses, 3) construction, 4) infrastructure in residential areas, 5) a management fee of 1 - 3 percent , 6) loan interest payment, and 7) taxes. As required, land used for the "anju project" is to be supplied by local governments based on unified administrative plans, together with some preferential treatment in order to reduce the total cost. In addition, the local government should cover the costs for infrastructure, and share the costs for the non - commercial public facilities in residential areas with home buyers (IFTE and IPA 1996 p. 136). The housing price for this type of housing would be set at the level of two thirds or half the price of commercialised housing in housing markets due to the application of preferential treatments such as the free land for the project, discounted administration fee and low interest rates for home loans. Because there are preferential treatments, this housing price is not the housing price, which has been discussed in Chapter 6. Therefore, this cannot solve the selling price problems in open housing markets.

Demand - side strategies

The target of the "anju project" was to provide more housing for low to medium income households, especially for the people who did not have their own housing, and who lived in dangerous housing or had serious housing problems. Retired employees and staff, and teachers with the same housing difficulties which other people had had priority to buy housing. Families with high incomes were not permitted to buy this housing.

To increase affordability, besides reducing the housing cost on the supply side, the schemes stated that relevant banks in cities of the 'anju project' should engage in individual mortgage loans, which require a 40 percent down payment and a maximum term of repayment of 10 years. Compared with 50 percent down payment for a home

loan to buy housing in the free market (IFTE and IPA 1996 p. 43), the scheme gave home buyers a preferential treatment for their housing at a low price.

The above discussion shows that the comprehensive strategy for government intervention in urban housing included sharing the responsibility for housing people with housing problems between the central and local governments, reducing the costs of housing construction on the supply-side and increasing affordability on the demand-side. All strategies would be realised through a series of preferential policies. Therefore, this project cannot solve urban housing problems thoroughly.

7.3.3 Evaluation of the "Anju project"

Forward to a market economy

As an important aspect of a housing system based on a market-oriented economy, government intervention through China's "anju project" is a crucial step in urban housing system reform. Before the project, the central government only focused on decentralisation of housing financial, investment, and decision-making powers to realise urban housing commercialisation and to increase housing supply in open housing markets, in order to solve housing problems through housing market forces (see Chapter 5). Actually, the amount of housing supply is more than the amount of effective demand in housing markets, while housing problems still exist.

China's government intervention in urban housing markets is quite different from government housing control under the centrally planned economy though there are various subsidies for the project by the preferential treatments. In terms of the aims of government intervention, the "anju project" targets the poor and the people who cannot get access to housing due to their low social status or the shortage of housing resources in their work units. It is very different from the old housing system. It is true that the

project provides welfare housing for some people. However, it is the people whose living standards are obviously lower than the average level. The welfare housing is limited to a certain range of people who need some help from the government. It does not recreate the planned welfare housing system, which targeted all employees who were subsidised under the planned economy system.

In terms of funds for the project, there is no direct investment in the project by the central and local governments. Each year, the central government uses a certain amount of credit quota as construction loans and the loans must be repaid within three years. Local governments have to finance their proportion of project funds before they get the loan from the central government. It is different from the direct investment in urban housing construction by the central government under the old system.

For home buyers, governments only provides preferential prices to help them afford housing rather than distributing free housing to them. Although they can obtain home loans from relevant banks, they have to take responsibility to pay a 40 percent down payment, and to repay the loan within ten years. It is different from the old system that distributed housing according to their social status or position in a work unit. The housing produced for the project is still treated the same as a good in a housing market.

Some crucial issues

In terms of government intervention in the housing sector, some issues in the project are worth discussing. First, the project will only be carried out for five years. However, government intervention in the housing sector is a long-term task due to failures of the housing market. Housing problems such the poor who cannot afford to pay for their housing and inequalities of urban housing consumption exist continuously in market economies, even in developed countries such as the United State and Britain. Therefore,

the Chinese government should have long-term strategies and policies for intervention in urban housing.

Second, an ambiguous target for assistance is easily misunderstood. Although the project has targeted low-medium income households, according to the present standard it is difficult for local governments to determine a clear line. For example, low-medium income households are those households who cannot afford to pay for housing at a market price. High income households mean those that can pay for housing at a market price, with five to six times annual family incomes ('Questions and answers on housing policies' cited in Hou Jie 1996, p. 1205).

However, in China in 1994, the housing price to income ratio was very high, and average was 9.84 : 1. The urban areas of the 26 provinces fell within the assistance range (see Table 6-1 in Chapter 6 and Hou Ximin 1996, p. 19). According to the 'Sample survey of economic conditions of urban households', Li Anlian, Li Jian and Tao Hei claim that low-medium income households account for 89 percent of total urban households, while high income households amount for seven percent of total urban households and four percent of households are poor. (1997, p. 32). Therefore, most urban households should get government assistance. Actually, this is not the range which the scheme is intended to assist. Due to the unclear definition of low-medium income households, which includes almost all households, people may think that the project is a reversal of urban housing reform, and the lack of a clear definition makes it difficult for local governments to put the project into practice.

Third, can the "anju project" promote housing reform? From the nature of commercial housing prices, we can see that "anju project" gives more preferential treatment than other housing projects. As we have pointed out earlier in Chapter 6, however, some of the costs for infrastructure and non-commercial public facilities should not be included in housing prices from the very beginning. This affects the level of 'preferential

treatment' in the "anju project". If the composition of housing cost cannot be set properly, most residents still cannot afford housing in housing markets. As a result, overstocking of urban housing and housing problems co-exist, and the housing reform cannot move forward.

Summarising the above analysis, we believe that the "anju project" would help ease the housing shortages to some extent through government intervention, and the government can play a role in the housing sector. But there are some issues worth discussing and rethinking. It is still too early to make any final conclusions on its role in promoting urban housing system reform.

7.4 Conclusion

In the light of the experiences of market economy countries in the urban housing market and the current urban housing situation in China, urban housing reforms do not mean that the Chinese government should give up playing a role in the urban housing sector. In a housing market, housing supply only meets effective demand for housing, while the poor who cannot afford to pay for their housing still live in slums or squats. Meanwhile, externalities in housing production and consumption can affect social costs or benefits. As the market mechanism fails in housing markets and housing problems exist, government intervention becomes necessary.

The reasons for Chinese government intervention are its natural monopoly in the urban land market, the goals of increasing positive externalities in urban housing, the provision of welfare housing for the poor and the redistribution of urban housing for social equality. The Chinese government's intervention in urban housing through the "anju project" has adopted a comprehensive strategy by providing various preferential

treatments for both the supply and demand sides. The central, local government and individuals share the responsibility to attain social housing aims.

In general, "anju project" is based on market principles. All funds for the project are bank loans rather than government investment. The central government gives preferential treatment to prompt the increase of housing stocks on the supply side and affordability on demand side.

However, there are still some issues to consider. The project only lasts five years, while the government's role in urban housing is a long-term task. An ambiguous definition of the target recipients makes it difficult for local government to put the project into practice. Some items in housing costs should not originally have been included. For example, the cost of auxiliary facilities and outdoor projects can be paid for through fee collection rather than in the housing price. However, the government still considers as a preferential treatment to be used in the project (see Chapter 6). In the light of the issues in government intervention in urban housing, the real effect of the project on the urban housing reform remains to be seen. It is too early to evaluate the extent of the project speeding up the urban housing reform.

Chapter 8 Conclusion

Urban housing situations vary depending on different levels of economic development and different economic systems. No matter what type of government and whether it is in a developing or developed countries, all face housing problems. However, each country has a seemingly unique set of factors, which have played a role in the history and development of urban housing and related policies (Hardoy and Satterthwaite, 1989 cited in Aldrich and Sandhu, 1995, p. 1). Changes in economic policies and system over different periods therefore affect the urban housing situation. In this study, two models of urban housing system have been investigated, and we took China as a case study to examine the effects of economic policy change on housing problems. This chapter will first review the main arguments and summarise the major findings. It will then extend the major arguments to a more general discussion of urban housing issues, and particularly, of the failure of urban housing control under the centrally planned economic system and the establishment of the housing market based on a market-oriented economy. In the light of this discussion, some policy implications will be drawn from the Chinese experience.

8.1 Conclusion and major findings

1 Governments' actions on urban housing vary depending on their economic systems and they can result in different housing situations.

The basic argument raised at the beginning of this thesis is clear. There are two main housing models: government intervention in urban housing based on a market economy

and government housing control under a centrally planned economy. The former focuses on helping the poor who can't afford housing to get access to decent housing, and as a result, government intervention in urban housing can, to certain extent, solve urban housing problems. The latter aims to limit urban housing development and to limit housing investment in order to achieve industrialisation and urbanisation at the expense of urban resident housing consumption.

In market economies, the reasons for government intervention in housing are the limitations of housing market forces and inequalities of income distribution. The common aims of government intervention in urban housing include: to remedy a housing shortage; to help the poor and alleviate the repayment burden; to stabilise housing production; and to improve general housing conditions. The strategies adopted by governments can be divided into two types: one is a "target-strategy" consisting of either supply-side strategies or demand-side strategies; the other is the "comprehensive strategy" which provides various preferential treatments for both supply and demand sides to attain social housing goals. On the basis of experience in either developed or developing countries, government intervention in urban housing promotes the development of housing investment, finance and consumption in market economies.

In a centrally planned economy, housing is regarded as a public or distribution good. The reasons for government housing control are: establishing a housing system under public ownership, taking total responsibility for housing and achieving a centrally planned economic system. Socialist governments adopt the following strategy for government housing control: under-investment in urban housing, a low-rent and low-wage system and administrative distribution of urban housing. Therefore, both housing shortages and inequalities of urban housing distribution appears in those countries with a housing control system.

2 China's housing problems occurred because the role of a housing market was denied while a low rent system and urban housing nationalisation were introduced.

Although China like other Eastern Europe countries following the Soviet model implemented a centrally planned economy and implemented the government housing control system, it still had its own characteristics. In China, government housing control started from 1955 rather than 1949 when the Chinese Communist Party came into power.

The pre-reform housing system was based on the formation of the low-rent system and the process of urban housing nationalisation. The low-rent system was formalised according to the socialist ideology whereby the government regarded housing as a consumption good and had the responsibility of housing every urban family. Urban private housing was nationalised, based on the socialist orthodoxy of public ownership. On the surface, the Chinese government's housing control policies were intended to provide housing for urban people and to transfer private housing to the public, in order to be improve social housing consumption. In fact, the low rent system and housing nationalisation were designed to meet the needs of the national political and economic situation and the development strategies for national industrialisation.

Based on this study, we found that under the low-rent system after 1955, the demand for urban housing increased rapidly and in the meantime, urban housing investment declined. Thus, urban housing shortages appeared. The government carried out nationalisation of urban private housing to increase the public housing stock and to remedy urban housing shortages. This point was reflected in all of the policies for the transformation of urban private housing. The research also suggested that the reasons for the nationalisation of urban private housing were to remove inequalities of housing consumption between the private housing owners and tenants, and to improve the living

standards of urban people. However, the low-rent system caused new inequalities of urban housing consumption from the start of the low rent system in 1956 until 1978.

3 The policies for economic development under the centrally planned economy resulted in urban housing shortages

This conclusion is supported by the research carried out into the determinants of China's urban housing situation. We found that there were four important factors, which determined the housing situation during the period of the centrally planned economy: industrialisation strategies, the fast growth of urban population, the low-rent and low-wage system and administrative urban housing distribution. The former three factors caused an absolute housing shortage and the last one generated what was called here a relative housing shortage.

In the light of the experience of economic growth in market economies, housing construction should increase with industrial development. However, due to speeding up capital accumulation in order to achieve industrialisation in China, most of the national income was distributed to heavy industries. According to the mode of national economic planning called "first heavy industry, then light industry, and finally agriculture, and first production development and then living improvement", the housing sector suffered from during the whole period. As a result, demand for urban housing exceeded supply. The average living space per capita decreased each year.

The urban population is another determinant of the housing situation. If the city size and the volume of housing supply are given, the growth rate of population will determine the average living space and basic living condition of the urban residents. However, this study has shown that China had some special features in terms of the effect of urban population growth on the housing situation. Before the economic system reform, the government strictly limited rural-urban migration. On the one hand, the absolute size of

China's urban population was very large; on the other hand, the rate of urbanisation was relatively low. This reflected the Chinese government's attempts to realise industrialisation without substantially increasing the rate of urbanisation. Therefore, during this period, the average living space per capita was affected by the growth of the urban population rather than the rural-to-urban migration, as occurred in other developing countries during the process of urbanisation.

The administrative distribution system generated a relative housing shortage, which was caused by the inequitable housing distribution, rather than the lack of housing investment, the low-rent and low-wage system and the fast growth of urban population. There were two kinds of public housing: work unit-owned housing and state-owned housing. Administrative allocation was based on a work unit's rank in the central economic planning system and people's social status in their work units.

This research has shown that there are three kinds of inequalities of urban housing distribution. First is inequitable distribution of housing investment between various regions. The higher a region's position in the government hierarchy, the more housing investment it received. This created a relative housing shortage among different regions. Second is inequitable distribution of urban housing among work units. The regime of bargaining among organisations to escape taxation or gain subsidies from higher-level government jurisdictions is the most important means for work units to gain more housing resources. In this bargaining, larger firms can get more housing investment than small firms; and compared to collectively-owned enterprises, state-owned enterprises or official institutions generally found it easy to get housing resources. Within a work unit, whether or not employees can obtain housing depends on their rank in the units, their ages and some other conditions such as their age, family size and their current living situations. Third, and the most important one at present, is inequality of the housing distribution caused by privilege, nepotism and corruption. Under an administrative distribution system, some officials use their power to seek privileges and occupy more

housing than they need. From the perspective of economics, what drives the inequality of housing distribution is a vested interest generated by the low rent and the administrative distribution system.

According to the above results, government housing control under the centrally planned economy in socialist countries failed to provide urban residents with decent housing. The urban housing shortages in these countries were caused by their economic systems. Therefore, in order to solve their housing problems, the urban housing system has to be reformed. As different economic policies result in different housing situations, government housing control must be changed into government intervention in housing to establish a real housing market.

4 By the end of 1997, housing system reform had not fundamentally changed the old housing system, though the average living standards have been improved.

China began its urban housing system reform in 1980 (See Table 8-1). The housing reform has involved the transformation of three mechanisms, and we can divide the process into four phases. The first transformation was the shift from the system of centrally controlled urban housing, including investment and distribution, towards multiple channels of investment in urban housing. The second was the selling of new housing as consumption goods on the open housing market, and of old housing as subsidised goods on an internal housing market in the work units. The goal was to increase the privately-owned proportion of the total housing stock and to collect capital for housing construction. The third mechanism was raising the welfare rents gradually to the level of commercial rents. The goal was to change the indirect subsidy into a direct subsidy and to encourage tenants to make more contributions to housing themselves.

The process of housing reform can be divided into four phases: first was the decentralisation of investment in housing construction; second was the sale of newly-built urban housing to establish an urban housing market; third was the experiments with the low-rent system reforms and the selling of the existing housing stocks in selected cities, and fourth was the spread of housing reforms all over the country.

The research has found that the housing reform has not achieved its scheduled goals. In term of urban housing shortages, during this period living space per capita become more than double what it was before the reform, and living conditions improved.

However, in terms of establishing a new urban housing system based on a market-oriented economy, the reform has not achieved its aims. This argument has been supported by the following research results:

First, the urban housing system reform aimed to change the housing investment by the government and work units into a sharing of the burden of urban housing construction among government, collectives (work units including all enterprises and institutions) and individuals. At present, the proportion of housing investment by central or local government and work units still amounts to 80 percent of the total of urban housing investment.

Second, the aim of selling public housing to the private owners aimed to change the structure of housing ownership in order to set up an urban market. Nevertheless, due to the dual-track housing prices, two housing markets exist: an "internal housing market" and an "open housing market". The former still follows the old welfare system. The latter is limited to a very narrow range because the low-rent system still exists and people are not willing to buy their own housing.

Third, the low-rent reform aimed to get rid of the welfare system in urban housing consumption in order to realise urban housing commercialisation. Assessing the result of rent reforms, however, rent reforms have not stimulated individual investment in housing, and the rent for public housing is still subsidised by the government and by work units. Although the reform has made some gains, most of rental housing is still under the old housing system and the results still fall short of the reform targets.

5 Establishin a market-oriented housing system

After 18 years of urban housing system reform, a new housing system based on a market-oriented economy has not been established because the reform only has focused on solving urban housing shortages through decentralisation in housing investment, sale of urban housing and raising rents. This research has clarified that there are four key issues still to be tackled for establishing a new housing system.

First, according to China's housing price to income ratio (PIR), housing prices are distorted in two aspects: one is that the housing price in the "open housing market" is too high to be affordable by ordinary urban residents. It results in an overstocking of newly-built housing. The other aspect is that rent cannot be raised to a market level without a huge wage adjustment. This situation keeps the rents at a very low level, so that the funds collected from rent are not enough to satisfy the demand for housing investment. In the "internal housing market", the selling of public housing is at preferential prices; in the "open housing market", the selling new housing is according to market value. Therefore, double gaps exist: in the open housing market, the supply exceeds the demand for housing because the housing price is far beyond the affordability for salary employees and the low rent system still exists; in the internal housing market, the demand exceeds the housing supply because the housing prices are still subsidised by governments and work units.

Second, to clarify property rights over urban housing is a very important issue for setting up a housing market, because property rights are one of the important elements in commodity transactions in a market economy. In the light of experience in market economies, although property rights can include many items, the two important subsets of property rights are income rights and control rights. However, in China these two rights are very ambiguous. The relationship between housing owners and tenants cannot be guaranteed by laws. For example, the housing of the state-owned enterprises should belong to the government, because all investment comes from the fiscal budget. However, the various levels of governments did not have the right to make a decision on how to distribute the housing, and they never care who controlled the properties. In terms of the income right, the investors could not get the investment return through the housing lease, and the more the investment, the more subsidies for urban housing the governments or work units have to defray. Therefore, ambiguous property rights have become a source of urban housing problems such as inequalities and inefficiencies of housing investment.

Third, to date a market-oriented housing management system has not been set up. The most substantial problem is that the reform fails to end the dependency of employees on the work units for their housing supply and services. Under this housing management system, there are some issues worth seriously rethinking: there is still inequality of housing distribution among work units due to different capabilities of housing supply among work units. Managing housing for employees is the work unit's burden. In the meantime, work unit involvement in housing distorts the housing market. It is impossible for housing reform to reach the goal of the reform scheme without housing management system reform, that is without ending the relationship between work unit employment and housing provision.

Fourth, the research shows that the current financial system in China fails to suit the development of urban housing. According to the experience of market economies, when

a nation has entered a period of long-term steady economic growth, the main barrier to carrying out a program of housing development is the lack of a sustained and guaranteed source of money for house buyers and house builders. Thus, a housing financial system should be rapidly developed.

At present, there are two crucial issues for the financial system: firstly financial institutions, channels and instruments do not fit the requirements of a long term investment in housing and the financial mechanism does not promote housing investment; secondly, there are no specific institutions for consumers to negotiate a mortgage loan. Therefore, establishment of a market-oriented financial system is one of the urgent tasks in further housing reform.

6 A new housing system does not mean denying the government's role in urban housing

This argument is supported by practical and theoretical analysis. According one survey, after 14 years housing system reform in 1994, there were 4 million households with housing problems. Adopting the rationale for government intervention in market economies, it is necessary for the government to take action on urban housing due to market failure in housing markets and externalities in the housing sector. During and after urban housing system reform, the government should not give up a role in housing.

In the light of the economic rationale for government intervention in housing markets, China has some special features. There are several reasons for Chinese government intervention in housing markets: first, the national monopoly in the urban land market; second, the presence of externalities in urban housing; and third, the provision of welfare housing for the poor and the redistribution of urban housing for social equality. The "anju project" implemented by the central government indicates that although

government housing control has been given up, government intervention based on a market-oriented economy has started.

8.2 Policy implications for urban housing drawn from the Chinese experience.

1 Government should play the correct role in urban housing

Experience of government action in housing has shown that government housing control under centrally planned economies was a mistake. Due to unsuitable economy policies, housing problems occurred in countries such as China. Based on market economics, a new housing system should be set up to complement the economic system reforms. Government intervention is necessary when market forces fail to solve urban housing problems.

However, different housing policies can still result in different urban housing situations in market economies. Stretton argues that the town planners who want strict standards, and market theorists who want no regulation at all, are both wrong (1978, p. 110). Therefore, the government can adopt various housing strategies in order to remedy a housing shortage, to help the poor, to alleviate the burden of low-income families, to stabilise housing production and to improve general housing conditions.

To date the Chinese government has intervened in urban housing through the "anju project". The aim of the project targets the poor and people who cannot get access to housing due to their low social status, low family income or shortages of housing resources in their work units. However, it is a five-year program. What role will the government play in urban housing after this project? Nobody knows what will happen. In market economies governments have a long-term program to intervene in urban housing areas due to the long term existence of urban housing problems. Therefore,

based on the experience of "anju project", the Chinese government should plan a long-term strategy for housing policies to deal with urban housing problems

2 Four crucial tasks of housing reforms for establishing a housing market in China

According to the experience of market economies, for further housing system reform, there are four crucial tasks concerning establishing a housing market in China. First, rational housing prices must be established. Housing policies should aim to reduce the housing price in open housing markets through cost reductions, and to rise the price in internal housing markets with wage adjustments, in order to attain supply and demand equilibrium.

Second, the clarification of property rights among governments and work units is an urgent task for stepping up urban housing system reform. Without a legal system of property rights to protect the interests of investors, it is impossible to set up multiple financial channels for housing investment, especially to make individuals provide more contributions from their savings to house themselves. Therefore, all housing policies should be based on a legal system which guarantees property rights over housing

Third, an independent housing management system must be set up . All housing policies should lead to cutting the "umbilical cord" linking the employees to their employer. The housing management system must be separated from work units and various levels of government, and an independent real estate industry must be established.

Fourth, the development of a housing finance system must be promoted. At present, there are some financial problems: high down payment far beyond the affordability of households, short maturity of home loans and problems in housing provident funds. The government should draw up policies to reduce the down payment ratio in order to attract more residents to participate in home loans. In the meantime, the maturity period of the

home loans should be extended, in order to reduce borrowers' annual expenditure on housing and to improve affordability. The policies should strengthen the role of the housing provident funds in the financial system.

Table 8-1 A brief chronology of China's housing system reform

1978	The formation of the basic approach to urban housing reform in order to raise the standard of living at The Third Plenum of the Eleventh Central Committee of the Chinese Communist Party
1978-1980	Decentralisation of housing investment allocation <i>On Strengthening Urban Construction Work</i> , issued jointly by the State Council and the CCP Central Committee
1982	Sale of urban public housing to establish an urban housing market started by China Housing Construction and Development Corporation approved by the National Construction Department
1986	Low rent system reform experiments in some cities Aims: raising rents, increasing wages and encouraging employees to buy housing. Carried out by The Leading Group for Housing System Reform under the State Council
1988	Further trials of the housing system reform across the country <i>The implementation of urban housing reform throughout the country in stages and groups</i> announced at The First National Conference on Urban Housing Reform held by the Leading Group for the Urban Housing System under the State Council
1991	Housing system reform in the whole country <i>The Notice on Continuing to Actively and Safely Advance Urban Housing Reforms</i> put forward by The Second National Conference on Urban Housing Reform held by The Leading Group of Urban Housing System Reform under the State Council
1994	<i>Resolution on Deepening Urban Housing Reform</i> at The Third National Conference on Urban Housing Reform held by The Leading Group of Urban Housing System Reform under the State Council
1995	' <i>Start of National Anju Project</i> ' (economic and comfortable housing project) Government intervention in the urban housing market to solve the housing problems for lower income families and promote the urban housing system reform announced by the National Construction Department and the Leading Group of Urban Housing System Reform under the State Council

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