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REFORM OF THE CHINESE HOUSING SYSTEM

IN THE 1990s

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A thesis submitted for the degree of

Master of Arts

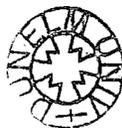
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University of Durham

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Abstract

This thesis considers the Chinese housing reforms of the 1990s in the context of the previous system and assesses their impact. The PRC housing system evolved gradually from 1949 onwards. Described as a “work unit welfare-in-kind housing provision system”, it was widely perceived as having fundamental flaws and was targeted for reform from 1978 onwards. Following a period of protracted experimentation from 1978 to 1990, the Chinese government launched a new wave of comprehensive housing reforms from the beginning of the 1990s. The four key early measures were: rent increases, the sale of public housing, the creation of the Housing Accumulation Fund, and the development of Economic and Practical Housing. However, these changes had only limited impact, and a new policy, monetised housing provision, was introduced in the late 1990s, along with a series of ancillary policies. This aimed to prohibit the allocation of housing to employees by work units, directing them instead to provide a cash allowance as part of wages; employees were directed to purchase or rent accommodation in the market. This was intended to speed up the process towards a market economy in the housing sector.

The fact that housing reforms have such a major impact on all urban families makes them extremely sensitive. At the same time, reforms in other areas of the economy are dependent on the successful implementation of housing reforms. This thesis analyses the impact of the reforms and assesses how far they have succeeded in making fundamental changes to the housing provision system.

Declaration

I confirm that no part of the material in this thesis has previously been submitted by me for a degree in this or any other university.

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Chapter 1 Introduction

In 1978, before the housing system reforms, the monthly rent for a 50 square meter public apartment with two bedrooms in the city of Changsha was only 5 yuan; that was equal to the cost of a package of cigarettes at the time. The maintenance cost for such an apartment was as much as 150% higher than the rental income.¹ It was an anomaly that in socialist China, which was founded on the principle of equality, a large number of families in big cities such as Beijing, Shanghai and Guangzhou had to pack three generations, or even four generations into one small room, while some government officials had several spacious publicly-owned apartments for themselves and their children, and paid very little rent for them.² By the mid 90s, after years of reform, the situation was even worse. In 1997, there were over 70 millions square meters of empty housing nation-wide, while over 4 million urban families were suffering from serious housing shortage.³

To understand the above phenomenon, it is necessary to understand the main features of the old in-kind housing provision system, which was put in place after the founding of the People's Republic of China in 1949. Under this system, housing was provided to employees in government institutions and workers in state-owned enterprises (simplified as employees in work units hereafter), and an amount was deducted from

¹ Li, Qi *Zhufang yu Gaige* Beijing: Beijing Urban Development Research Institute 1992, p.38

² Shang, Junfeng *Gaige de Kundian yu Xingfendian* Guangdong: Zhuhai Chubanshe, 1998, pp.4-16

³ Wang, Xianqing *Zhufan Geming* Guangdong: Guangdong Renmin Chubanshe, 1998, p.1

their wages by the state for centralized housing construction. No housing allowance was included in the salaries paid to the employees, and they were entirely dependent on their work unit for housing provision. Normally, provision by work units depended on such factors as marriage status, age and period of employment, and did not take into account an employee's work performance. Given the importance of housing for a family or individual, the planned housing distribution system eventually became riddled with corruption, as the leaders of work units had the discretion to allocate housing to people close to them. Moreover, housing investment funds were unevenly distributed among work units by the state. Some work units enjoyed considerable housing investment provided by the government; while others had little or none. This resulted in inequalities in housing resources possessed by different work units. A work unit's share of housing investment allocation depended on such factors as the nature of its business or profession, and its relationship with the government, rather than its productivity or economic or professional contribution. Like much of the rest of economy, market forces did not operate in the in-kind housing provision system in China.

Under the market economy, resources are most efficiently distributed through the operation of the market system in which rewards are related to productivity and success. This applies to housing too, which is still a kind of commodity. The market economy system dictates that work units should determine the wages of employees according to their work and contribution, and employees purchase their own goods and services in the market place. In other words, there should not be a central deduction from pay for

housing as in the past. The employees can then rent or buy their housing in the market with their wages. In such a system, housing provision follows the rules of the market rather than of the work unit. The cost of housing is then determined by supply and demand, not by administrative decisions and policies.

From the beginning of the 1990s, China initiated a series of housing reform measures, which were aimed at the commercialization of the housing sector. These included policies to raise the rents of public housing, the sale of public housing, the establishment of the Housing Accumulation Fund and the introduction of 'Economic and Practical Housing'.

Although the aim of housing commercialization was constantly reiterated, up to the end of 1990s, the reforms had not accomplish their stated aim of establishing a new urban housing system based on market economy principles. Firstly, the proportion of housing investment made by central or local government and work units still amounted to the majority of the total investment in urban housing. Secondly, the dual pricing system policy created two housing markets: an 'internal housing market' and an 'open housing market'. The former still followed the welfare housing system. The latter was very limited in its range and size. Thirdly, rent reform failed to stimulate investment by individuals in housing and rents of public housing were still subsidised by the government and by work units. An examination of China's housing reforms shows that they did not fundamentally change the old housing system. Although the reforms had some effect, it is clear that the results still fell far short of the stated targets.

However, what the effects of the housing reforms up to the end of 1990s were, is a

matter of debate. The housing reforms of the 1990s were an integral part of the ongoing reform of the national economy. They proceeded very slowly, creating a number of contradictions, which in turn adversely affected reforms in other sectors. One can even argue that without far-reaching urban housing reform, the overall reform effort in China will fail.

Successful housing reform should achieve the following aims. Firstly, it should facilitate the development of the national economy. The housing industry is an amalgam of various industries, such as the construction industry, construction materials industry, engineering industry and so on. The development of a thriving housing industry is of great significance to overall economic development. Housing reform can strongly stimulate demand for house ownership, promoting the development of the housing industry and the national economy.

Secondly, housing reform should meet the needs of consumers. Along with social and economic development, increased income, and changing family circumstances, consumers housing requirements in terms of specification and location have also changed. Housing reform can stimulate the development of a true market-based system, which can in turn better meet the changing demands of consumers.

Thirdly, housing reform can remove an avenue of corruption. In the in-kind housing provision system, leaders of the work units could easily show preference to themselves or people close to them in the allocation of housing. Through housing reform, everyone will have to purchase housing with his own money in the market, avoiding corruption in the allocation process.

Fourthly, housing reform is beneficial for social stability. Home ownership is helpful in raising people's sense of social responsibility and their motivation, leading to greater social stability.

Housing reform is important to the success of other reform measures, such as the reform of state-owned enterprises and of the labour employment system. Under the in-kind housing system, many state-run enterprises had to allocate up to 50% of their housing to non-employees. This greatly increased their housing burden.⁴ For employees, it inhibited employment mobility. Once they were allocated housing units, people had an unspoken binding relationship with their work units. With housing reform, enterprises could reduce their financial burden and increase their competitiveness while the employees could move more freely between work units, thus promoting further flexibility in the labour market.

Thus, the housing system has an enormous impact on economic and social development, affecting the progress of reforms in many other important areas, such as wage reform, social welfare reform, state-owned enterprise reform, etc.

The need for housing reform gained greater in the wake of the Asian Financial Crisis. Boosting domestic consumption was at the cornerstone of China's strategy to weather the effects of the crisis and maintain the planned growth rate of around 8% p.a. Home construction was seen as one of the sectors that could make a significant contribution

⁴ Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige—Mubiao Moshi yu Shishi Nandian* Beijing: Minzu yu Jianshe Chubanshe 1999, p. 152. This situation occurred, for example, when work unit X's employee's spouse was employed by work unit Y, but lived in shared accommodation owned by work unit X.

towards maintaining domestic demand. Thus, towards the end of the 1990s, housing reform became a very important part of China's national economic strategy.

Chapter 2 Literature Review

This study relies basically on Chinese language sources. There has been a substantial amount of Western scholarship on general economic reform in contemporary China, but I have not been able to find works specifically on reform of the housing supply system apart from the World Bank report of 1992.. I have relied Chinese government regulations, secondary books and articles by Chinese scholars, data and other materials supplied by relevant government departments and by real estate firms. In addition to written sources, my work is also informed by discussions and interviews with Chinese government officials and people working in the residential property sector.

2. 1 Government Regulations

Four key government regulations promulgated during the 1990s dominated the reform effort. They are the: “Notice on Actively Promoting Urban Housing Reform” (Guowuyuan guanyu jixu jiji wentuo di jinxing chenzhen zhufang zhidu gaige de tongzhi),⁵ issued in June 1991; “Directive on Intensifying Urban Housing Reform (Guanyu quanmian tuijin chenzhen zhufang zhidu gaige de yijian),⁶ promulgated in

⁵ Hereinafter 〈the Notice〉, Document No. 30 of Guofa 【1991】 , promulgated by the State Council on 7th June 1991, in *Beijing Fangdichan Zhengce Fagui Huibian* (Collection of Policies and Regulations on Beijing Real Estate) Beijing: Beijingshi Chengshi Jianshe Zonghe Bangongshi 1998, pp.415-418

⁶ Hereinafter 〈the Directive〉 Document No.73 of Guobanfa 【1991】 , promulgated by the Leadership Group in charge of Housing Reform under the State Council, in Gao, Shangquan and Chu, Chuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* (Compendium of China's Urban Housing System Reform) Beijing: Zhongguo Jihua Chubanshe 1996, pp.790-793

November 1991; “Decision on Intensifying Urban Housing Reform” (Guanyu shenhua chengzhen zhufang zhidu gaige de jue ding),⁷ issued in July 1994; and the “Notice on Intensifying Urban Housing Reform and Accelerating Residential Construction (Guanyu jinyibu shenhua chengzhen zhufang zhidu gaige jiakuai zhufang jianshe de tongzhi),⁸ issued in July 1998.

In June 1991, the State Council issued the Notice, which argued for housing reform as a basis for improving living conditions and regulating housing consumption in order to commercialize housing and develop the housing industry. In proposing appropriate readjustment of public housing rents (i.e. phased increases in rents), and the sale of public housing, the Notice emphasized the application of “new policies for new housing” and better real estate market management.

In October 1991, the Second Housing Reform Conference was convened, at which the State Council Leadership Group in charge of Housing Reform (Guowuyuan fanggai lingdao xiaozu) reported on housing reform practice. After the conference, the Directive was issued.

In detailing the implementation of regulations contained in the Notice, the Directive first affirmed that urban housing reform constitutes an important part of the overall economic reforms, and then argued for a progressive transition from in-kind housing

⁷ Hereinafter (the Decision) , Document No.43 of Guofa 【1994】 , promulgated by the State Council on 18th July 1994, in Gao, Shangquan and Chu, Cuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu*(*Compendium of China's Urban Housing System Reform*) Beijing: Zhongguo Jihua Chubanshe 1996, pp.797-801

⁸ Hereinafter the Notice (1998), Document No.23 Guofa 【1998】 , in *Beijing Fangdichan Zhengce Fagui Huibian* (*Collection of Policies and Regulations on Beijing Real Estate*) Beijing: Beijingshi Chengshi Jianshe Zonghe Bangongshi 1998, pp.399-401

provision to the monetisation of housing provision. This was to start with the abolition of the low rent public housing system. It also enunciated the four basic principles for housing reform: 1. cost sharing between the government, enterprises and individuals; encouraging the balanced development of both market-priced rental housing and owner-occupied housing in order to mobilize more resources; decentralization of decision-making in accordance with local conditions but under common guidelines; and transformation of the housing delivery system. Policies on rent increases and subsidies, the sale of public housing, housing finance, housing investment and construction, housing ownership, and real estate market management were carefully explained as well.

The Notice and the Directive did not achieve their fundamental aim of housing commercialisation, although they initiated nationwide housing reforms and set targets for these. In 1992, when a real estate market suddenly emerged, the price of construction materials rose, causing a corresponding rise in the cost of construction. Funds reclaimed from the sale of public housing were inadequate for planned developments, resulting in ever-increasing investment on the part of the government and enterprises. This caused an increased financial burden, which people tend to ascribe to the abnormal development pattern of the housing industry.⁹ As far as the author is concerned, though housing reform was treated as a vital part of the overall economic reforms, the Notice and the Directive failed to take account of the relationship between

⁹ Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige—Mubiao Moshi yu Shishi Nandian (Chinese Urban Housing System Reform—Objective Pattern and Implementation Difficulties)* Beijing: Minzu yu Jianshe Chubanshe 1999, pp.130-131

housing reforms and the market structure. As a result, the delayed implementation of housing reforms increased the gap between house prices and incomes, and the ratio between rental and purchase cost, completely negating the effects of previous housing reforms. In such a situation, where the housing reform policy overrode the rules of the market economy, it was impossible to succeed.

In 1994, the State Council issued the Decision, which pointed out that the fundamental goal of housing reform is to create a new urban housing system appropriate to a socialist market economy, and to promote the commercialization of housing. It clearly stated that with the four housing measures already adopted (rent reforms, sale of public housing, establishment of the Housing Accumulation Fund and construction of Economic and Practical Housing), an embryonic new housing system would have been established by 2000.

The housing reform measures did help advance reform, but there was still a long way to achieve the goals. The Decision did not focus on developing a commercial rental sector to stimulate the economy and fulfill long-term market needs. The dual pricing system of cost-price sale and standard-price sale of public housing added to the difficulties for the secondary market, resulting in a disorderly market. The Housing Accumulation Fund was a good approach of housing reform, but not enough attention was paid to the deposit ratio question. The Fund remained too small and, in practice, a substantial proportion of it was diverted, so it failed to make a significant impact. Anju housing (a kind of Economical and Practical Housing) had to be sold to medium-income families at cost price. As a result, developers could not make any profit from the construction of

such housing. To make up for the losses, they had to raise the cost of the commodity housing, resulting in too high price for purchasers. Ultimately, this ran counter to the aim of commercialising housing. It was not sensible for policy planners to introduce Economical and Practical Housing as a solution to the social welfare problem.

The four housing reform measures failed to fulfill their intended aim of establishing a new urban housing system based on market economy principles. Analysis of the cause shows that it resulted from the influence of the dual-track system in housing provision. The fundamental reason for this is that the government did not appropriately adjust the relationship between housing reform and the market. They favoured their housing reform policy over the development of a market economy system. In spite of its clear goals, the government failed to focus its housing reform efforts on those goals, failed to give full rein to the development of market forces, but attempted to administrative measures instead. As Miao Leru, vice manager of Beijing Housing Reform Office, argues, housing reform ranks first, the real estate market lies second. Successful housing reform is the basis of marketisation.¹⁰ This was typical of the view of government officials. The failure was a result of the government attempting to use planned economy methods to implement market economy reforms.

Realising the drawbacks in the system and, more importantly, the function of the market, the government issued the Notice in 1998. This clearly stipulated that housing provision in kind was to be ended in the second half of 1998 (later postponed till the

¹⁰ Miao, Leru "Fanggai diyi shichang dier" (Housing Reform Is More Important than the Market) in Kan, Jun eds. *Beijing Fangdichan Shichan-Toushi yu Fenxi(Perspective and Analysis-Beijing Real Estate Market Year Book)* Beijing: Zhongguo Renshi Chubanshe 1998, pp.178-179

first half of 1999), and housing provision be gradually monetised. Moreover, the Notice (1998) emphasised a series of ancillary policies. These included: the application of different housing supply policies to different families; the continuation of public housing reform; the development of housing finance; accelerating the construction of Economic and Practical Housing through various support measures and vigorously encouraging the real estate market.

Monetisation of housing provision advanced housing reform, increased actual demand, and helped develop the market, although it did not solve the problem of inequity in the public housing stock.

2. 2. Review of Books and Articles

The lively 1980s debate in China on housing reform greatly influenced the housing reform policies of the 1990s. Some scholars like Zuo Ling affirmed that housing, as a special item, is not simply a commodity but has welfare attributes too. Even under a commodity economy low-income people should be subsidised, and it is doubtful whether the special commodity status of housing makes it suitable for “housing commercialisation” treatment.¹¹ On the other hand, theorists like Qi Mingchen and Su Xing insist on the need for housing commercialisation. In their opinion, the aim of housing reform is not only to solve the problem of housing shortages, but also to change

¹¹ Zuo, Ling “Zhufang Zhidu Gaige de Lilun Mangqu” (Theory Blind Area in Housing System Reform) in *Dangdai Fangdichan* Vol, 6 1989, p.29 and “Guanyu zhuzhai jinrong de yanjiu” (A Study on Housing Finance) in Zhang, Zuoji Wu, Jie and Liu, Zhifeng eds. *Zhongguo Zhufang Zhidu*

the system, devising a system which combines economy and consumer satisfaction to the highest possible degree. The commodity nature of housing makes it a natural candidate for commercialisation. Housing should be obtained in the market instead of by allocation. Market economy principles should be the theoretical foundation of housing reform. Although some security of occupancy is needed, this cannot be used as an excuse to reject housing commercialisation. Even this security can be achieved through economic measures rather than welfare ones.¹² Their arguments are very persuasive. Housing has no greater welfare character per se than other commodities. Only housing which has been taken into the social welfare system has welfare attributes. Realising this is important to understanding the housing reform policy in the 1990s. In 1992, Yang Ru and Wang Yukun published a book *Housing Reform: Self-Questioning on the Theory and the Opportunity of the Reality*, which offered an early systematic analysis of the problems of, and strategies for, housing reform.¹³ In addition to analysing the general character of earlier reforms, they looked particularly at capital flow and reform structures. They also studied the financial implications for

Gaige (China Housing System Reform) Beijing: Gaige Chubanshe 1996, p.514

¹² Qi Mengchen "Shehui zhuyi yu zhuzhai suoyouzhi-lilun yu shijian de lishi yanbian kaocha" (Socialist Housing Ownership-a Study on the Historical Change in Theory and Practice) in *ZhuZhai Shangpinhua Tansuo(Housing Commerlisation Study)* Beijing: Zhongguo Chenzhen Zhazhishe 1985,pp.7-12 and "Fanggai mubiao zhi xingquandian pingshuo" (A Review on the New Point of View in respect of Housing Reform Target) in *Zhuzhai yu Fangdichan (Housing and Real Estate)* , p.8; Su, Xing "Zenyang Shi Zhuzhai Wenti Jiejue de Kuaiyixie" (How to Solve the Housing Problem Faster) in *Hongqi (Red Flag)*, Vol. 1, 1980,pp.16 and "Zenyang Renshi Chengshi Zhuzhai Shangpinhua" (How to Understand Commerlisation of Urban Housing), in Gao, Shangquan and Chu, Chuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu(The Whole Book of China's Urban Housing System Reform)* Beijing: Zhongguo Jihua Chubanshe 1996, pp.1-5

¹³ Yang, Ru and Wang, Yukun *Zhufang Gaige: Lilun de Fansi yu Xianshi de Xuanzhe(Housing Reform: Self-Questioning on Theory and the Opportunity of the Reality)* Tianjin: Tianjin Renmin Chubanshe,

the government of housing reform, state-owned enterprise reform and housing commercialisation. They advocated housing commercialisation but opposed privatisation. Summing up the experiences of the housing welfare provision system, and earlier reform attempts, they suggested gradual rent increases, the establishment of an accumulation fund, and the imposition of obligatory saving for housing. The weakness was their failure to acknowledge the difficulty of increasing rents, and come up with specific measures to do so. Working in the State Development Research Centre, they provided accurate and detailed data, which is frequently quoted by other researchers.

The World Bank report of 1992 *China: Implementation Options for Urban Housing Reform* saw the aim of urban housing reform, as to restructure the sector to fit the wider reform agenda.¹⁴ They argued that the overall reform effort would fail if far-reaching urban housing reforms were not implemented. The report recommended the need to introduce fixed-term, renewable leases for rental units, with limited “consumer protection” for tenants, and enforceable eviction rights in the case of failure to pay. The linkage between employment and housing should be cut permanently. Rents cannot be adjusted once and for all since inflation will continually tend to erode their real value. Furthermore, market rents cannot be decided by formulas. The report further recommended that given the historically high housing unit price-to-annual household income ratios, particularly in the larger cities, the construction of new housing should be overhauled. One reform suggested changing the composition of housing unit buyers,

eliminating the work units and replacing them with rental management companies and individuals or co-operative investors purchasing rental and owner housing. These new buyers, having to operate in an environment where “hard” budget constraints would prevail, would help restore consumer sovereignty to the marketplace and force producers to adapt to demand or cease production. As far as housing finance was concerned, the report said that affordability, within the context of a viable financial intermediary system, could be advanced by accelerating moves toward lower down payments and longer repayment periods for mortgages

In general, the report was practical, positive and fitted the situation in China at that time. It analysed accurately the housing system in China and proposed a systematic reform strategy, providing a foundation and reference for Chinese housing reform plans. However, there was great difficulty in putting this into operation mainly because the large wage subsidy required exceeded the means of enterprises and city finances. In addition, the report does not put forward practical advice for dealing with many problems.

In *China's Urban Housing Reform*, Chinese and American scholars from the Institute of Finance and Trade Economics, the Chinese Academy of Social Sciences and the Institute of Public Administration, New York, USA put forward their view that although raising rents and selling public housing are an essential part of the reforms other issues were even more important. These included key issues such as the clarification and legalization of property rights, the creation of independent, non-profit housing

¹⁴ The World Bank, *China: Implementation Options for Urban Housing Reform*, Washington, D.C., 1992

management companies, the development of effective housing finance, the formation of a market-based housing delivery system and rational price-setting mechanism.¹⁵

Up to 1996, all housing reform measures and experiments focused on rent increases and house sales. They lurched between emphasising one or other of these two methods. Whenever one was seen to have failed to produce the expected break-through, they moved towards the other. The limitations of this approach had become very clear and the work by these Chinese and American scholars is a good corrective.

Monetisation of Housing Distribution, by Wang Xianqing and Wu Shaoping, studies in detail the background, significance, and standards of monetised housing provision.¹⁶

The book starts from in-kind provision under the planned system, follows the housing commercialisation process from system reform to monetised housing provision, monetised housing buying, the real estate market, house pricing and housing finance. It points out that the core of housing reform should be reform of the housing allocation system. Those who did well under this system saw no need to go to the market for housing, while those who did badly under the allocation system could not afford to buy or rent housing in the market. As a result, the housing income of those who had already been allocated housing was put into bank savings or spent on other goods while those who did not have housing could not afford to obtain it in the market. The housing in kind allocation system had become an obstacle to housing commercialisation and was

¹⁵ Zhongguo shehui kexuyuan caimao jingji yanjiusuo and Meiguo niuyue gonggong guanli yanjiusuo *Zhongguo Chengzhen Zhuzhai Zhidu Gaige (China's Urban Housing Reform)* Beijing: Jingji Guanli Chubanshe, 1996

¹⁶ Wang, Xianqing and Wu, Shaoping, *Huobi Fenfang (Monetisation Housing Distribution)*, Beijing: Gaige Chubanshe 1998

affecting the development of a real estate market.

During the housing reform process, the emphasis shifted to raising funds for housing reform, changing the housing ownership structure by selling housing and resolving the question of allocation. Reform of the allocation system is the key. If this is resolved and people are paid the market wage rate, they will plan their housing consumption according to their personal circumstances* (just like they plan their consumption of colour TVs, refrigerators and so on). There is no need for the government to interfere. If the emphasis is to be placed on changing the ownership structure, resolving the allocation system should be the underlying principle; otherwise, the change of ownership will lead to inequitable ownership of what were originally public resources. On the issue of government involvement in the housing market, many people think that the solution to the shortage of housing is for the government to step into the housing supply market, i.e. supply more Economic and Practical Housing. Hou Xinmin and other scholars think that there is big problem in housing supply in Chinese cities and towns, where the ratio of commercialized housing is too high and the ratio of Economic and Practical Housing is too low. On the basis of an investigation into residents' budget constraints, they draw the conclusion that because most people cannot afford the high price of the commercialized housing it should only be aimed at those who have a high income. Meanwhile, more Economic and Practical Housing should be built and be at the core of the housing supply system in order to solve the housing problems of mid-income and low-income families (approximately 70 percent of the total population,

they estimated)¹⁷. They suggest this should be a long-term policy. At present the government and many experts hold this view. While Zheng Yefu has doubts, he agrees that social security should assist people in greatest difficulty while those in the middle-income group should rely on the open market. He points out the contradictions in government policy: the government sells housing to those who already have it at the standard price, but then sells the Economic and Practical Housing to those in middle or low-income group at cost price. However, the cost price is much higher than the standard price and carries no security.¹⁸ Ren Zhiqiang, taking the side of the real estate developers, thinks that Economic and Practical Housing, subsidised under government policy, will inevitably undermine commodity housing. The latter pays land rents and taxes. This causes unfair competition and affects the orderly operation of the market. He thinks that subsidies should be aimed at the market instead of at individuals.¹⁹ A third point of view is put forward by Cheng Siwei. He thinks that Economic and Practical Housing should be in the short term promoted on a large scale but later transformed into commodity housing.²⁰ Zheng Yefu and Ren Ziqiang's opinions seem most persuasive. The so-called 'new housing supply system' advocates that

¹⁷ Hou, Ximin Ying, Hong and Zhang, Yaping *Weiyou Guangsha Qianwan Jian (For Owning Thousands Great Houses)* Guilin: Guangxi Shifan Daxue Chubanshe 1999, pp.153-155

¹⁸ Zheng, Yefu, "Chengzhen zhufang zhidu gaige de sikao (xu)" (A Thought on Urban House System Reform(continued)), in *Beijing Fangdichan (Beijing Real Estate)*, Vol. 3, 1997, pp. 13

¹⁹ Ren, Zhiqiang, "Fangdichan Kaifa zhong de Lilun he Zhengce" (The Theory and Policy in Real Estate Development) in Kan, Jun eds. *Beijing Fangdichan Shichan-Toushi yu Fenxi (Perspective and Analysis-Beijing Real Estate Market Year Book)* Beijing: Zhongguo Renshi Chubanshe 1998, pp.112-115

²⁰ Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige-Mubiao Moshi yu shishi Nandian (Chinese Urban Housing System Reform—Objective Pattern and Implementation Difficulties)*, Beijing: Minzhu yu Jianshe Chubanshe, p.42

high-income families should buy commercialized housing, that middle-income families should buy Economic and Practical Housing and low-income families should rent low cost housing (lianzu fang). This uses administrative measures to divide the market into different sectors. It goes against market concepts, and contradicts the basic reform aim that housing should be commercialized and socialized. The government's moves to supply more Economic and Practical Housing risked lowering the price of commercialized housing in the short term. But in the long term, its disadvantages exceeded its advantages. Once the market system is undermined, the cost of housing reform will be even greater. By developing a housing market, with the operation of market mechanisms, the problem of high prices and high vacancy levels of commodity housing can be solved. The government is wrong to suppress the commercialisation of housing, by developing Economic and Practical Housing and neglecting low-rent housing. Instead it should promote the commercialisation of housing in such a way that most people could afford to buy, and provide low-rent housing for a minority of people in urgent need. Economic and Practical Housing should be given lower priority.

A Note On Statistical Data:

The study draws on the statistics provided by government departments as well as data collected by scholars. The major sources of official statistics are the National Statistical Bureau, the Ministry of Construction, and National Real Estate Index office. The study also uses data collected by scholars, for example, statistics on monthly rents, the size of the accumulated fund, house prices, etc. Most of the figures provided by scholars seem

to be accurate and reliable. However, the official data provided by various government departments are not uniformly reliable. For example, while the Ministry of Construction figures on the ratio of private ownership of urban housing can be treated as reliable, the ministry's figures on the housing price and family income ratio seem to be underestimates. In general, it can be said that official statistics do give a picture that is close to reality, but they are not entirely accurate and reliable.

Chapter 3 The Housing System 1949-89

3. 1. Introduction

Reform of the housing sector was started in 1978 as a part of the Reform and Open Door policy launched under the leadership of Deng Xiaoping.²¹ However, housing reforms from 1978 to the end of the 1980s was limited to an examination of the situation and trial efforts at reform, which were conducted only in a few selected places. No new housing system was systematically applied throughout the country even after more than ten years of experimental reforms. Thus, in housing the reforms of the 1990s were still reforms of the old housing system in place before 1978.

This chapter will examine the foundations, characteristics and problems of the old housing system as it developed from 1949-78, and then provide an introduction to the early experimental reform attempts before 1990.

3. 2. Evolution of the Housing System

The development of housing policy and practice during the period 1949-1978 can be divided into the following three phases.

²¹ Note: Housing reform was initiated by a speech of Deng Xiaoping on how to solve the problem of housing shortage in 1978. For further details, please see Wang, Wei *Zhufang Zhidu Gaige* Beijing: Zhongguo Renmin Daxue Chubanshe, 1999, p.218

3. 2. 1. From 1949 to 1952: Establishment of Public Ownership Principles

The history of Chinese public ownership of urban housing can be traced back to the early days of the People's Republic of China.

From 1949, eager to gain the population's trust by demonstrating its concern and efficiency, the new Chinese government needed to tackle a lot of issues it had not previously confronted, and immediately launched a series of programmes to reconstruct and re-organize the country. On the housing question, it began with a series of measures to deal with properties owned by the Guomindang authorities, bureaucrats, traitors to China, capitalists, landlords and foreigners. 1. Properties abandoned by the Guomindang authorities and bureaucratic capitalists such as “the Four Big Families” (sida jiazu) Jiang, Song, Kong, Chen, and big landlords, who were all considered the enemies of the people were confiscated. 2. Properties abandoned by traitors who worked for the Japanese army (during the Anti-Japanese War 1937-1945) were also confiscated by the new government. 3. Foreigners' properties fell into three categories: foreign government property, foreign religious organization property and foreign individual properties. The new government expropriated the properties of foreign governments considered to be enemy states of the PRC. Others were to be administered by the new authority on behalf of their owners if they were not claimed by their original owners. 4. In order to maintain social stability, the new government strengthened the policy of protecting private property including that of national capitalists, small handicraft enterprise owners and ordinary residents.²²

²² Yu, Siyuan *Fangdichan Zhufang Gaige Yunzuo Quanshu* Beijing: Zhongguo Jiancai Gongye

According to the statistics of the First Property Registration conducted by the Clearance Administration Bureau and Housing Administration Bureau in 1950 and 1951, through confiscation, new China turned 10-15% of urban real estate property into the first batch of public housing. This belonged to the socialist government and set a foundation for the public ownership of land and housing in urban areas.²³ As the article “On the Nature and Policy of Urban Housing and Rent” (Guanyu chengshi fangwu fangzhu de xingzhi he zhengce) published in People’s Daily in December 1949 said:

“The ownership of this kind of housing lies with the people’s government, and belongs to the people. And more exactly, it is public property with socialist characteristic of the people with the working class as its leader, and with the unity of workers and peasants as its basis.....All urban housing should be regarded as social property and protected...”²⁴

This clearly shows the public ownership orientation of the CCP’s housing policy. Soon after the nationalization of housing, the new government introduced the equalization of housing in the early 1950s. Housing confiscated by the state was distributed among the population, including government employees, the army, and ordinary residents. In practice, the principle of “Using rental incomes to cover housing maintenance costs” was adopted.²⁵ In accordance with the regulations of that time, the monthly rent including the cost of depreciation, repairs, and administration was about 0.25 yuan per square meter. This accounted for 6-10% of a monthly family income.²⁶ It was stipulated

Chubanshe 1998, pp.294-296; Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* Beijing: Gaige Chubanshe 1998, pp.30-31

²³ Notes of lecture given by Professor Zhang, Xuebin, Beijing Real Estate Staff University

²⁴ For further details. please see Chen Zuoji, Wu Jie, Liu Zhifeng *Zhongguo Zhufang Zhidu Gaige* Beijing: Gaige Chubanshe 1996, p.608

²⁵ *ibid* p.608

²⁶ *ibid* p.607

in “On the Nature and Policy of Urban Housing and Rent” formulated by Ministry of Internal Affairs in 1952, that:

“ In order to save housing and use rental incomes to cover maintenance costs, a rental system is adopted....On the one hand, (a rental system) can limit housing waste; on the other hand, (it) can help to maintain and build houses. A rational rental standard should cover the costs of depreciation, repairs and administration, real estate tax and a certain amount of interest. However, affordability must be considered a part of rent collection.”²⁷

3. 2. 2. From 1953 to 1958: Transformation to Public Ownership Housing System

In 1953, China introduced its First Five-year Plan (Yiwu jihua). In 1956, China started the socialist transformation movement, which aimed at turning private industry and commercial trade into collectively owned and state-run enterprises. In this great changeover to a socialist structure, the private ownership of land and housing was transformed into public ownership through redemption, leasing, and private-public joint management. By 1958, most of the private owners had given up their property rights, although some of them still possessed or occupied some of the private housing for personal use according to the relevant regulations.²⁸

During this period, the principle of “using rental incomes to cover housing maintenance costs” had not been rigorously implemented due to the unilateral emphasis on the welfare aspects of housing. Rents of urban public housing were gradually reduced around the country, and in most big cities, monthly rents went down from 0.25 yuan per

²⁷ *ibid* p.607

²⁸ Zhongguo shehui kexuyuan caimao jingji yanjiusuo and Meiguo niuyue gonggong guanli yanjiusuo *Zhongguo Chengzhen Zhufang Zhidu Gaige* Beijing: Jingji Guanli Chubanshe 1996, p.94; Hou, Ximin Ying, Hong and Zhang, Yaping *Weiyou Guangsha Qianwanjian* Guangxi: Guangxi Shifan Daxue Chubanshe, 1999, p. 10

square meter in the early 1950's to about 0.13 yuan per square meter.²⁹

3. 2. 3 From 1958 to 1978: Development of the Traditional Housing System

During the period from 1958 to 1978, Chinese people experienced a series of political movements - the Great Leap Forward (Da yuejin), the People's Communes (Renmin Gongshe), and finally the Cultural Revolution (Wenhua da geming). Influenced by the policy of "the greater the public ownership element, the better the socialist system" (Gongyouzhi chenfen yueda yuehao), and, misled by the incorrect assumption that "communism is imminent", many leftist policies were implemented in the housing sector, reflecting similar changes being introduced to every aspect of life at the time. Public ownership became the major form of urban housing, with a negligible amount of private ownership of housing. Under various political and economic pressures, many private homeowners handed over their properties to the government "voluntarily" or involuntarily. All these properties automatically became public assets, although there were no definite government provisions on confiscation of such property rights. The government had become the only investor in and producer of urban housing. By 1978, 74.8% of urban housing was publicly owned.³⁰

²⁹ Hou, Ximin Ying, Hong and Zhang, Yaping *Weiyou Guangsha Qianwan Jian* Guilin: Guangxi Shifan Daxue Chubanshe 1999, pp. 11-12; Chen Zuoji, Wu Jie, Liu Zhifeng *Zhongguo Zhufang Zhidu Gaige* Beijing: Gaige Chubanshe 1996, p.608

³⁰ Kong, Zhu "Zhongguo chengzhen zhufang zhidu gaige lilun zhengce yu shijian de fazhan" in *Beijing Fangdichan* Vol. 10, 1996, pp. 18-20; Zhongguo shehui kexuyuan caimao jingji yanjiusuo and Meiguo niuyue gonggong guanli yanjiusuo *Zhongguo Chengzhen Zhufang Zhidu Gaige* Beijing: Jingji Guanli Chubanshe 1996, p.95

3. 3. Characteristics and Problems of the Traditional Housing System

3. 3. 1. Characteristics

The old Chinese housing system has been summarized as: a “welfare in kind distribution system” (shiwu fuli fenpei zhi), a “housing supply system” (zhufang gonggi zhi), a “housing welfare distribution system” (zhufang fuli fenpei zhi), a “low-rent-and-free-distribution system” (di zujin wuchang fenpei zhi), and “state-monopoly welfare system” (guojia baofuli zhi), etc.³¹ Just like the traditional socialist economic system, it was a supply-driven system. Under the traditional socialist economic system, decision-making power was highly centralized. The government dictated to enterprises what to produce and how much to produce; and to people what to consume and how much to consume. In such a supply-driven system, there was no concept of real demand; production meant consumption, while supply was equal to demand. Consumption demand was totally decided by production supply. The national housing situation in China, depended on the government’s housing investment decisions. Under this housing system, instead of being circulated in a market, housing was distributed to employees by their work units in the name of welfare in kind, as a form of wage. Normally, welfare housing was distributed in direct relation to an employees’ work ranking.

Since housing, as a form of labour compensation, was linked to employment, employees had to obtain this welfare through their work units. However, some work

³¹ Yang, Lu and Wang, Yukun *Zhufang Gaige: Lilun de Fansi yu Xianshi de Xuanzhe* Tianjin : Tianjin

units obtained substantial housing investment from the government, while others were allocated little or nothing. The level of housing welfare an individual could obtain, not only depended upon their position in the work unit, but also upon the status of the work unit in the perception of government policy-makers.³²

The former housing system included characteristics appropriate to the “work unit-welfare in kind housing supply system” (danwei fuli gongji tizhi). Research has shown that these characteristics were fully manifested in the field of housing investment and housing distribution.

1. Housing Investment

Under the former system, housing investment mainly came from public funds. Usually, funds were allocated for housing investment after the government had chosen suitable capital construction projects (jijian xiangmu). Such projects were awarded to work units such as state-owned enterprises or large collective enterprises. Capital construction investment became the main source of housing investment. Depreciation and renewal funds were strictly managed. Those officials who used such funds for housing investment without permission were liable to be removed from office on the grounds of violating financial discipline. Therefore, the scale of housing investment directly depended on government decision-makers. Reinforced by the leftist notion of “production first, enjoyment later” (xian shengchan, hou shenghuo), before the reform movement decision-makers opted for more investment in production and less in

Renmin Chubanshe 1992, p. 69

³² Zhongguo shehui kexuyuan caimao jingji yanjiusuo and Meiguo niuyue gonggong guanli yanjiusuo *Zhongguo Chengzhen Zhufang Zhidu Gaige* Beijing: Jingji Guanli Chubanshe, 1996, pp.84-85

housing, which was regarded as “nonproductive investment”.³³ During the two periods of relatively normal economic construction (1953-1957 and 1971-1975), the annual housing investment was 1080 million yuan and 2010 million yuan respectively.³⁴ Compared with the international average, the lack of Chinese investment in housing before the reform movement is clear (See Table 3.1).

Table 3.1 Chinese Housing Investment before 1978 and the International Average

	Housing investment as % of GNP	Annual additional housing space per urban resident	Residential housing as % of all construction
International average	3%-6%	0.5-1.0 sq. meter	50%-80%
China (1952-1978)	0.75%	0.22 sq. meter	32.8%

Source: Guojia Kewei , “Zhongguo jishu zhengce (zhuzai jianshe)” in *Guojia Kewei Lanpishu*, Vol. 2, 1985, pp.41-48

During the 27 years from 1952 to 1978, China’s total housing investment was 34,833 million RMB, which was only 0.75% of GNP for that period. According to UN statistics, housing investment was 3-6% of GNP in other countries, with 5% as an ideal rate recommended by the UN. During the same period, total urban housing construction in China amounted to 530 million square meters, or 0.22 square meters per person per year, while it was 0.5-1.0 square meters per person in other countries. Residential

³³ Zheng, Lian “Housing Renewal in Beijing-Observation and Analysis”, a thesis submitted to the Faculty of Graduate Studies and Research , McGill University; also see Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige—Mubiao Moshi yu Shishi Nandian* Beijing: Minzu yu Jianshe Chubanshe 1999, p.104

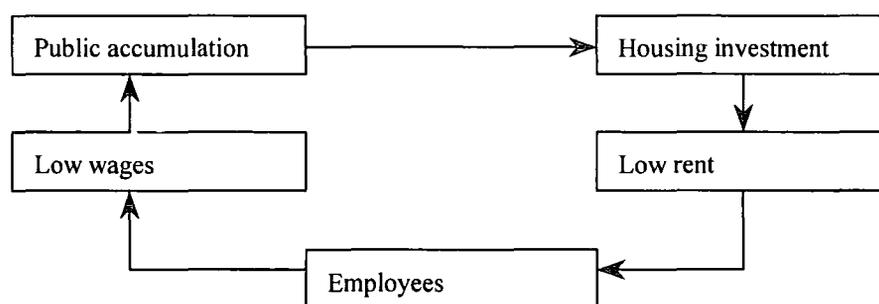
³⁴ Yang, Lu and Wang, Yukun *Zhufan Gaige: Lilun de Fansi yu Xianshi de Xuanze* Tianjin : Tianjin Renmin Chubanshe, p.71

housing was only one third of the total new construction, compared with a rate of around 70% in other countries. The policy of “production first and enjoyment later” led to a reduction in Chinese urban residential space from 4.5 sq.meters per person at the beginning of 1950s to 3.6sq. meters per person in 1978.³⁵

Housing investment by state-owned enterprises came from the national capital construction allocation. In turn, the national capital construction allocation came from the high ratio of national income held by the state. This originated in the high level of retentions from employees wages.

The national public accumulation funds included housing investment, and the completed housing which had already been distributed to employees at a low rent. Employees’ low wages greatly contributed to the national public accumulation fund, which was later transformed into housing investment. (see figure 3.1).

Figure 3. 1 Housing Investment Flow in Former Housing System



2. Housing Allocation

Housing was allocated among enterprises and individuals. Allocation among

³⁵ Guojia Kewei , “Zhongguo jishu zhengce (zhuzai jianshe)” in *Guojia Kewei Lanpishu*, Vol. 2, 1985,

enterprises could be classified into “two types” and “three levels.” “Two types” referred to enterprises which could receive investment and allocate housing, and enterprises which could not. State-owned enterprises could receive a state capital construction allocation, but other enterprises could not. There were “three levels” among state-owned enterprises and institutions: the high level, large and powerful ones at the top, the ordinary ones in the middle and the small ones at the bottom. The lower the level, the slighter the chance of obtaining housing investment.

In enterprises that received investment, housing was allocated according to administrative rank, marriage, age, and period of work. Since housing was such a big item for every single family, corruption caused by the housing in kind allocation system was rife, since work units leaders could easily allocate houses to themselves or people close to them.³⁶

3. 3. 2 Main Problems

1. The old housing system inherently discouraged enterprises from developing housing. In the former system, after enterprises had handed over their profits to the government, they could obtain investment funds from the state for housing construction. In this way, the enterprises often became the actual controllers of such housing. For the enterprises, although housing funds came from the government, the right of use (*shiyong quan*) lay with the enterprises, and as such, they were responsible for the management. Therefore,

pp.41-48

³⁶ Zhongguo shehui kexuyuan caimao jingji yanjiusuo and Meiguo niuyue gonggong guanli yanjiusuo *Zhongguo Chengzhen Zhufang Zhidu Gaige* Beijing: Jingji Guanli Chubanshe 1996, pp.84;

this housing naturally became a kind of enterprise property, which could be used to placate employees. Until 1979, over 90% of all housing investment was financed by central and local government, but only 25% of completed public housing was controlled directly by the government. Most public housing was controlled by different work units, especially state-owned enterprises and government administrative organs.³⁷

The enterprise ownership of housing was considered detrimental to their effective commercial management. In order to keep up with changes in the market, enterprises had to adjust their scale of operations and the nature of their products structure; they also had to choose locations for new plants and hire or fire employees when necessary. During these processes, additional labour may have to be employed or surplus labour may have to be relocated to other projects, enterprises or places. Enterprise ownership of housing often led to difficulties in providing housing to new employees.³⁸

Under the traditional Chinese lifelong employment system, the amount of housing relocation in urban areas was very low. According to the policy at that time, swapping housing³⁹ was limited to a barter system, and excluded the possibility of monetary compensation.

2. The traditional housing system was harmful to the development of the housing construction industry.

Under the Commodity Economy (shangpin jingji)⁴⁰, continual increases in housing

³⁷ Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* Beijing: Gaige Chubanshe, 1998,p.17: Yu, Siyuan *Fangdichan Zhufang Gaige Yunzuo Quanshu* Beijing: Zhongguo Jiancai Gongye Chubanshe1998, p304

³⁸ Wang, Xianqing *Zhufang Geming* Guangdong: Guangdong Renmin Chubanshe, 1998, p. 9

³⁹ This was the only housing exchanging system in the absence of a true market.

⁴⁰ In the process of changing from a Planned Economy to a Market Economy with Socialist Characteristics, China

demand lead to house price increases, and thus to a growth in its supply. But in the low-rent system, rent did not reflect the value of the housing, and this led to a sluggish property development environment.

According to the Theory of Replacement, in order to ensure simple replacement, consumed value and material objects must be compensated for year by year. This means recovering consumed funds through depreciation charges and other costs, and replacing capital goods and consumer goods. Under the old housing system, housing investment relied on government allocation, housing rents received government subsidy, and housing maintenance relied on local finance. The construction industry lacked the ability to carry out simple replacement, let alone extended replacement. Construction companies were not able to recover their costs for centuries, much longer than the service life of housing of normally below 100 years. Well before costs were recovered housing was declared obsolete. The deficit could only be made up by continuous input of government funds. The more housing that was built, the greater the annual government compensation figure. This phenomenon was described variously as “all input and no output”, “he who builds loses” and “the more one builds, the greater the losses and the heavier the burden”.⁴¹

Relying completely on government assistance, the housing industry lacked a productive investment environment. Instead of becoming profitable, the housing construction industry became increasingly dependent on the government.

The productivity of the housing construction industry also affects the development of

introduced a commoditisation of the economy, which was called “Commodity Economy”.

related industries. The housing construction industry is an amalgam of various industries such as the construction materials industry, the iron and steel industry, the engineering industry, and industries related to housing services and public utility supply and construction. The under-development of the construction industry hampers the development of other industries related to it.⁴²

3. Exacerbation of Unfair Income Distribution by the Housing Subsidy

Before economic reforms, the characteristics of the Chinese urban wage system included low wages, welfare in kind packages and a wide-ranging rationing system for basic consumer goods. Wages were just part of people's incomes; the other part consisted of subsidies and income in kind. In 1988, housing subsidy was 16% of an employee's total annual income. It is clear that housing subsidy accounted for a considerable part of wages.⁴³

However, not everyone received such large payments in kind. Various factors led to unequal rights and interests in housing allocation. Different sizes, ages, locations, fixtures and fittings of houses had different values. Allocation of housing of different value to residents meant that they received unequal "payments" and unequal housing subsidy. Under the old system, even a more just housing allocation procedure and more criteria would have been unlikely to satisfy people. The fact that housing was regarded as public property to be distributed fairly, while at the same time being considered a kind of wage to be distributed according to status was a central contradiction of the

⁴¹ Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* Beijing: Gaige Chubanshe, 1998, p. 18

⁴² Wang, Xiaoguang Gao, Guoli and Fan, Caiyao *Zhufang Tizhi Gaige* Guangdong: Guangdong Jingji Chubanshe 1999, pp. 41-42

former housing system. Getting a new house amounted to receiving a big increase in non-monetary pay. At that time, the quest for ever better housing became a characteristic Chinese social aspiration along the quest for promotion. These factors caused housing allocation to aggravate the inequalities in income distribution.

4. The traditional housing system caused abnormal housing consumption

In many countries, it is very common for individuals to build or buy their own housing. Since the World War II, a strong wave of housing privatization has been witnessed in the USA, Japan, Australia and some other countries in Western Europe. In 1947, there were 20 million American families who had private housing. It constituted 53% of the total number of families. By the end of 1970s, 50% of British families owned private housing. By 1978, about 60% of Japanese families lived in their privately owned housing. By 1985, 63% of American, 60% of Canadian and 45% of French families lived in their own private housing.⁴⁴

Construction or purchase of housing through investment by the individual not only lightens the burden on government and accumulates wealth for society, but it also raises the value of total family capital. Another advantage of private investment in housing is that unrealistic housing expectations can be effectively managed. To build or buy a particular kind of housing, people must first consider the means at their disposal.

In the former Chinese housing system, urban residents took little part in housing investment. In the middle of 1950s very limited individual housing investment (less

⁴³ Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* Beijing: Gaige Chubanshe, 1998, p.19

⁴⁴ Yu, Siyuan *Fangdichan Zhufang Gaige Yunzuo Quanshu* Beijing: Zhongguo Jiancai Gongye Chubanshe, 1998, p305; Zheng, Yefu "Chengzhen zhufang zhidu gaige de sikao" in *Beijing Real Estate*,

than 1% of the total) was made in certain special departments (industrial departments, such as railway, coal and textile) in some cities. During the Cultural Revolution, private investment disappeared totally and housing was always “rented not bought”.⁴⁵

Taking into account both economic and political factors, it can be said that limited individual housing investment was inherent in the old housing system. Tenants could enjoy leasehold-type rights, by paying as little as 2% of their monthly family expenses.⁴⁶ Nobody wanted to surrender such low cost housing simply for the sake of more extensive property rights. For owners, the disposal rights pertaining to housing were beset by various limitations. It was uncertain whether house-owners could achieve sufficient return on capital when they resold property, making private investment in housing unattractive. In any case, the cost of housing was beyond the means of the vast majority of the population. The ratio between average cost of a house and the average urban resident’s annual income was over 20 to 1, while it ranged between 2: 1 and 6: 1 in other countries. Finally, without a system of credit buying, housing could not attract consumer investment. For all these reasons, Chinese urban residents were neither willing to nor able to build or buy their own housing. “To rent” but not “to buy” became the norm.

Vol. 2, 1997, p.12

⁴⁵ Liao, Kangyu “Zhongguo touzi tizhi gaige yu zhongguo chengzhen zhufang fazhan” (The Reform of Housing Investment System & Housing Development in China) in *Zhongguo Chengzhen Zhuzhai Zhidu Gaige* Beijing: Jingji Guanli Chubanshe, 1996, pp.208-209

⁴⁶ Hou, Ximin Ying, Hong and Zhang, Yaping *Weiyou Guangsha Qianwan Jian* Guilin: Guangxi Shifan

3. 4 Experimental Reform Period: 1978 to the late 1980s

The old housing system was first attacked during the wave of reforms at the end of the 70s. The Third Plenary Session of the Chinese Communist Party's Eleventh Central Committee (shiyi jie sanzong quanhui) in 1978, initiated policies which ended the old era and heralded a new phase of development in China. Deng Xiaoping launched a large-scale reform movement throughout the country, which covered virtually all aspects of people's lives, including the housing sector.

At the end of the 1970s, housing shortages were a pressing problem in most cities in China.⁴⁷ Under the new policies, all work-units were given autonomy in housing investment and development. Due to a shortage of government funds, they were given the responsibility for raising funds for construction,. After that, a series of new experimental housing policies were introduced. These eventually brought about tremendous changes in urban daily life in the 1990s.

Experimental housing reform before 1990 went through the following stages.⁴⁸

1. From 1978 to 1985, the policy of selling public housing was adopted in some places across the country. In 1978, the central government's resolve to bring private initiatives to full play in solving urban housing problems was evident during the National Urban Housing Working Conference. Deng Xiaoping suggested in 1980 that "Urban residents can buy their own housing or build their own housing; not only new but also old

Daxue Chubanshe, 1999, p. 31

⁴⁷ Hou, Ximin Ying, Hong and Zhang, Yaping *Weiyou Guangsha Qianwan Jian* Guilin: Guangxi Shifan Daxue Chubanshe, 1999, p.19

⁴⁸ Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige—Mubiao Moshi yu Shishi Nandian* Beijing: Minzu yu Jianshe Chubanshe 1999, pp. 111-125; Yang, Lu and Wang, Yukun *Zhufan Gaige: Lilun de*

housing can be sold; housing payment can be made in one go or by installments, say over 10 or 15 years".⁴⁹ In 1979, new housing apartments were sold by local government to private owners in the cities of Xian, Liuzhou, Wuzhou, and Nanning at a "full price" which covered all construction costs. The same practice was introduced to fifty other experimental cities such as Guilin, Shenyang, Wuxi, Nanjing, etc. in 1980. In April 1982, the State Council issued regulations allowing subsidies in housing for sale in the four experimental cities of Changzhou, Zhengzhou, Siping and Shashi. Selling public housing with subsidies meant that housing was sold at cost price⁵⁰ to employees, with subsidies provided by government and work units. In principle, the government, work units and individuals paid one third of the cost respectively. It was called "three-three housing selling system" (sansan zhi). In October, 1984, the State Council released the Report on Expanding the Experimental Sites for Urban Public Housing Sales with Subsidies (Guanyu Kuoda Chengshi Gongyou Zhuzhai Butie Chushou Shidian de Baogao), prepared by the Ministry of National Construction.⁵¹ This led to the designation of Beijing, Shanghai and Tianjin as new experimental cities. By the end of 1985, more than 10 million square meter of public housing had been sold.⁵²

It has been argued that these experiments, as a major part of the pre-1990 housing reforms, were not motivated by a desire to establish a market-oriented housing supply

Fansi yu Xianshi de Xuanze Tianjin : Tianjin Renmin Chubanshe 1992, pp.5-7

⁴⁹ Lu, Fuxin *Zhongguo Fanggai Toushi* Hangzhou: Hangzhou Daxue Chubanshe 1993, p.9

⁵⁰ Under the old planned housing system, the land was not considered to be a cost at that time.

⁵¹ Zhang, Zuoji Wu, Jie and Liu, Zhifeng *Zhongguo Zhufang Zhidu Gaige* Beijing: Gaige Chubanshe 1996 pp.113-115

⁵² Guo, Jianbo and Liu, Hongyu *Fangdichan Jingying Guanli Baikequanshu (Vol. 4)* Beijing: Renmin Zhongguo Chubanshe, 1999, p.2404; Zhang, Zuoji Wu, Jie and Liu, Zhifeng *Zhongguo Zhufang Zhidu*

system. Rather they were motivated by “short-term factors”, such as the need for a quick return on investment, since government investment and funds raised by the various work units could not meet the demand for new housing, which was growing rapidly in the 1980s.⁵³ Moreover, with no fundamental change in the low rent policy, the increase in housing investment and supply could only be met by an increase in subsidies, which caused an added burden for the government and enterprises.

Under this policy, housing units were offered to employees at a standard price (*biaojunjia*), which was first set at 50 percent of total construction cost. Later it was decided that the government, work units and individuals would each pay part of the price. The standard price was set at 300 yuan per sq. meter at that time, while in practice, the average sale price nationwide was around 20 yuan per sq. meter. In 1985, the State Council withdrew its approval of the preferential sale system for public housing, owing to widespread criticism of the policy.⁵⁴

2. From 1986 to the first half of 1988, a “basket” of housing reform measures, including rent increases and promotion of home ownership, were experimented with in the cities of Yantai (Shandong province), Tangsan (Hebei) and Bengbu (Anhui). The significance

Gaige Beijing: Gaige Chubanshe, 1996, pp.608-609

⁵³ Wang, Yukun “Cong gongfang chushou de shiyian kan zhufang gaige zhanlue de xuanzhe” in *Jingji Lilun yu Jingji Guanli*, Vol. 4 1986, p.15; Zhongguo shehui kexuyuan caimao jingji yanjiusuo and Meiguo niuyue gonggong guanli yanjiusuo *Zhongguo Chengzhen Zhufang Zhidu Gaige* Beijing: Jingji Guanli Chubanshe 1996, p15; Zhang, Zhongjun “Zhongguo chengzhen zhufang zhidu gaige de shijian he tansuo” in Gao, Shangquan and Chu, Chuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe 1996, pp.36-38

⁵⁴ Chen, Zhixiang “Dangqian woguo zhuzhaiye de gaige daolu yu fazhan moshi” in *Zhuzhai yu Fangdichan (Housing and Real Estate)*, Vol. 3, 1997, pp.44-46; Zhongguo shehui kexuyuan caimao jingji yanjiusuo and Meiguo niuyue gonggong guanli yanjiusuo *Zhongguo Chengzhen Zhufang Zhidu Gaige* Beijing: Jingji Guanli Chubanshe 1996, p87

of these experiments lies in the fact that they directly attacked the low rent system, one of the main defects of the old housing system. Following these experiments, the first National Conference on Urban Housing Reform was held in early 1988, and the Implementation Provisions on Housing Reform in Urban Areas (Guanyu zai quanguo chengzhen fenqi fenpi tuixing zhufang zhidu gaige shishi fang'an) was issued by the Housing Reform Leadership Group under the State Council (Guowuyuan fanggai lingdao xiaozu), which provided detailed guidelines for housing reform with rent increases as its main component.

The immediate and main obstacle to rent reform was the capacity of households to pay higher rents. As stipulated in the Provisions, the payment of increased rents would come mainly from two sources. One was household income, which meant households would devote a substantially larger proportion of their income to housing, with no obvious benefits. The other was an upward wage adjustment, which reflected the fact that the arbitrarily determined low wages were recognised as an underlying cause of low rents. This was to be corrected gradually through an adjustment to national income distribution.⁵⁵

Contrary to the aim of the Provisions, the rent increases failed to raise substantially the proportion of household income devoted to housing. Furthermore, it led to pressure for wage increases to meet the higher rents. This in turn led to an increased burden on the government and on enterprises. Constrained by the budget limitations, rent increases

⁵⁵Guanyu zai quanguo chengzhen fenqi fenpi tuixing zhufang zhidu gaige shishi fangan, Document No. 11, Guofa (1988), promulgated by the Leadership Group in charge of Housing Reform under the State Council in 1988, Simplified as the Provisions hereafter, in Gao, Shangquan and Chu, Cuanheng eds. *The*

compensated for by wage adjustments turned out to be an empty theory with no practical benefits.

In view of the disappointing progress of the rent reform experiment, the sale of existing public housing stocks re-emerged as the main component of housing reform after 1989. Similar to the situation in the early 1980s, the strategy of selling public housing was geared less towards establishing a market-based housing system than towards extracting more resources from households, in the form of housing investment, maintenance and management costs. Following this strategy, various experiments in house sales were conducted all over the country. Due to a lack of technical skill in property appraisal and management, an irrational rent-sale price ratio, and the unclear role of house sales in the overall housing strategy, many housing units were sold at hugely discounted prices. These prices amounted to less than 15 percent of the production cost.⁵⁶

Although the housing reforms during the experimental stage before 1990 did not produce any great achievements in practice, they did bring about a change in the thinking of the Chinese people, and made everyone realise that housing too was a kind of commodity. The lessons learnt during this period were beneficial for the much more comprehensive reforms that followed in the 1990s.

Chapter 4 Key Housing Reform Measures of the 1990s

4. 1 Introduction

Towards the end of the 1980s, such economic conditions as chronic inflation, weak market demand, shortage of funds, and declining enterprise profits jeopardised the implementation of the housing system reform that the State Council had developed based on the experiments in Yantai, Tangshan and Bengbu. The whole housing system reform was halted.⁵⁷

In 1991, when the Consolidation and Reorganisation Programme⁵⁸ was drawing to an end, and the economy began to recover, the State Council launched a fresh initiative with a series of measures designed to push forward urban housing reform. It can be said that 1991 was a landmark year in the history of housing system reform in China. The year was characterised by following developments.

In March, the State Council reorganized the Steering Group in Charge of Housing Reform under the State Council and moved it from under the Ministry of Construction to the National Reform Committee (Tigaiwei). Housing system reform was declared to be one of the three most important reform programmes under the National Reform Committee.⁵⁹ On the 1st of May, the Scheme for Implementing Urban Housing Reform

⁵⁶ Wang, Wei *Zhufang Zhidu Gaige* Beijing: Zhongguo Renmin Daxue Chubanshe, 1999, pp. 223-230

⁵⁷ For more details, please see Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige—Mubiao Moshi yu Shishi Nandian* Beijing: Minzu yu Jianshe Chubanshe 1999, pp. 118-125

⁵⁸ Yu, Siyuan *Fangdichan Zhufang Gaige Yunzuo Quanshu* Beijing: Zhongguo Jiancai Gongye Chubanshe 1998, p340

⁵⁹ Gao, Shangquan and Chu, Cuanheng “1978 Nian zhi 1995 nian fanggai dashiji” in *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe 1996, pp.1169-1175;

in Shanghai (Shanghaishi zhufang zhidu gaige shishi fang'an)⁶⁰ was initiated. In June, the State Council issued the Notice on Actively Pushing Forward Urban Housing System Reform (Guowuyuan guanyu jixu jiji wentuo di jinxing chenzhen zhufang zhidu gaige de tongzhi).⁶¹ On the 7th of October, the State Council convened the Second National Conference on Urban Housing System Reform at which Prime Minister Li Peng made an important speech encouraging reform of the housing system. On the 13th of November, the Leadership Group in charge of Housing Reform under the State Council promulgated the Directive on Intensifying the Urban Housing Reform (Guanyu quanmian tuijin chenzhen zhufang zhidu gaige de yijian).⁶²

In order to deepen the housing reform, especially to push forward the proposed rent increases and other reform measures, the Third National Conference for Urban Housing Reform was held in December 1993. This re-targeted the sale of public housing as the "key measure". On the 18th of July 1994, the State Council issued The Decision on Intensifying Urban Housing System Reform (Guowuyuan guanyu shenhua chengzhen zhufang zhidu gaige de jue ding)⁶³ which pointed out that as a main plank of the

Zhang, Zuoji Wu, Jie and Liu, Zhifeng "Zhongguo chengzhen zhufang zhidu gaige dashiji(1980-1996)" in *Zhongguo Zhufang Zhidu Gaige* Beijing: Gaige Chubanshe 1996, pp.622-625

⁶⁰ Approved on 8th Feb. 1991 and was put into effect on 1st May 1991, in Zhang, Zuoji Wu, Jie and Liu, Zhifeng eds. *Zhongguo Zhufang Zhidu Gaige* Beijing: Gaige Chubanshe 1996, pp.202-210

⁶¹ Document No. 30 of Guofa 【1991】 , Promulgated by the State Council on 7th June 1991, in *Beijing Fangdichan Zhengce Fagui Huibian* Beijing: Beijingshi Chengshi Jianshe Zonghe Bangongshi 1998, pp.415-418

⁶² Document No.73 of Guobanfa 【1991】 , promulgated by the Leadership Group in charge of Housing Reform under the State Council on , in Gao, Shangquan and Chu, Chuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe 1996, pp.790-793

⁶³ Document No.43 of Guofa 【1994】 , promulgated by the State Council on 18th July 1994, in Gao, Shangquan and Chu, Cuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe 1996, pp.797-801

nation-wide economic reforms, the fundamental purpose of housing reform was to establish a new urban housing system which was suited to the socialist market economy, would achieve housing commercialisation, expedite residential construction, improve housing conditions and meet the increasing housing demands of urban residents. The document greatly promoted housing reform in the 90s.

All these regulations and directives embodied four basic principles: cost sharing between the government, enterprises and individuals; encouraging the balanced development of both “market-oriented” rental systems and private ownership in order to mobilise more resources; decentralising the decision-making process in accordance with local conditions under the central guidance; and transforming the housing delivery system. These principles provided the basic framework for China’s housing reform in the period to come.

The above initiative showed that China's housing reform had stepped out of the tentative experimental stage to a new phase of all-out implementation with accompanying reforms in related sectors.

The beginning of the 1990s was the turning point in the reform of China’s economic system. From 1991, China adopted market-oriented reform after over ten years of experiments and practising. This contributed to a consensus over making the housing reforms more market oriented, so they encompassed a comprehensive set of reforms including rent increases (tigao zujin), sales of public housing (gongfang chushou), the creation of a Housing Accumulation Fund (Zhufang gongjijin), the promotion of Economical and Practical Housing (Jingji shiyongfang), etc.

4. 2. Public Housing Rent Reform (Gongfang zujin gaige)

4. 2. 1. The Policy

In October 1991, the State Council summoned the Second National Housing Reform Conference and issued two documents: the Notice and the Directive. It was proposed in these documents that the reforms should focus on raising rents in planned stages to make reasonable adjustments in the rents of public housing. In the early stages of housing reform, when the residents' financial ability to pay was still very limited, it was considered necessary to adopt a gradual approach to rent increases. It was decided that for newly built housing, the new rent system should be applied, and additional rent should be charged on additional units of housing occupied by employees. The documents also put forth ten-year objectives the long-term goals of housing reform. It was proposed that by the year 2000, the criterion for determining rents for public housing should be 'cost rent' (chengben zujin) comprising maintenance fee, management fee, depreciation fee, investment profits and property tax. In the long term, it should reach the level of commercial rents with land use charge, insurance premium and, in addition, profits.⁶⁴

⁶⁴ For further details, please see "Guowuyuan Guanyu Jixu Jiji Wentuo di Jingxing Chenzhen Zhufang Zhidu Gaige de Tongzhi" ,Document No. 30 of Guofa 【1991】 , Promulgated on 7th June 1991, in *Beijingshi Fangdichan Zhengce Fagui Huibian* Beijing: Beijingshi Chengshi Jianshe Zonghe Bangongshi 1998, pp.415-418 and "Guanyu Quanmian Tuijin Chenzhen Zhufang Zhidu Gaige de Yijian" , Document No.73 of Guobanfa 【1991】 , promulgated by the Leadership Group in charge of Housing Reform under the State Council, in Gao, Shangquan and Chu, Cuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe 1996, pp.790-793

On the 18th of July, 1994, the State Council issued another document entitled the Decision, which clearly stipulated that:

“housing rent should in principle reach 15% of the average family-income by the year 2000.....housing rent reform plans should be made and published accurately by every local government. The scope and frequency of rent increases should conform to the income level of the local residents and should be planned as a whole with reference to the price index. In provinces and counties with suitable conditions, the reforms should be aimed at achieving the goals of cost rent and market rent.”⁶⁵

4. 2. 2. Philosophy

For a long time, low rent remained the main feature of the urban housing system (see Table 2-1) and was a major reason behind various kinds of malpractices such as improper (i.e. corrupt) disposal of public housing.

Table 4.1 Public Housing Monthly Rent in Beijing before 1991 (unit: yuan / sq. meter)

Year	1949	1950	1951	1958	1966	1979	1990
Rent	0.3	0.21	0.34	0.22	0.24	0.136	0.136

Source: Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige-Mubiao Moshi yu Shishi Nandian*, 1999, p.203

1.The low rent system divorced completely the cost of housing from its value. This made it impossible to recoup the value of housing through letting, and thereby resulted in a shortage of maintenance funds. Though additional funds were raised through local

⁶⁵ For further details, please see “Guowuyuan Guanyu Shenhua Chengzhen Zhufang Zhidu Gaige de Jueding” Document No.43 of Guofa【1994】, promulgated by the State Council on 18th July 1994, in Gao, Shangquan and Chu, Cuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe 1996, pp.797-801

financing in some cities, it was too little to meet the need for maintenance investment. This led to the poor maintenance of urban housing, which became a safety hazard. Poor quality housing also adversely affected the enthusiasm of the employees, and thus their productivity. Without changing the low rent system, the problem of poor maintenance could not be solved, and thus the living conditions of the employees could not be improved.

2. The low rent system ensured that housing costs as a percentage of total household costs was very low. To occupy more housing space caused very little extra economic burden for a family. This resulted in excessive demand for housing, and malpractice in housing distribution, contributing to the practice referred to as "unfair housing allocation, unequal comfort and discomfort". Therefore, without disposing of the low rent system, it was considered impossible to establish an economic mechanism to curb the occurrence of such practices.

3. The low rent system constituted the main obstacle to the implementation of other housing policies. If the low rent system were not changed, it would be difficult to initiate other reform measures, for example the sale of public housing. Even if they could be initiated, it would be difficult to sustain them. It was commonly acknowledged that it was better to rent a residential apartment than buy one, because the rent was low while the price of an apartment was high. An apartment with one bedroom and one sitting room cost at least RMB10,000 in the early 1990s, but to rent such a dwelling cost only a few hundred yuan a year. However, if the money to buy an apartment was deposited in the bank, a year's fixed deposit could earn an interest of more than one

thousand yuan. So as a result, nobody was willing to buy housing.⁶⁶ As this example shows, the low rent system greatly reduced people's enthusiasm to buy their own housing.

4. The low rent system also affected the construction of new housing units. For a long time low rent alienated the returns on housing from its real value, making the returns not only lower than the value but even below cost. Thus housing funds experienced the phenomenon of "input with no output". So, not only was it impossible to expand provision, the rent was even not enough to maintain existing provision. Housing maintenance agencies found it difficult to maintain the housing with low rental revenue and had to depend on the state to subsidise their maintenance work. So the more housing that was built, the more maintenance funds the state had to provide, resulting in a vicious circle. Civil housing construction fell into a downward spiral, which had a seriously negative impact on the development of the construction materials industry and many other related industries.

4. 2. 3 Obstacles to Housing Rent Reform

There were various reasons for the slow progress of housing rent reform. These included opposition from the beneficiaries of the low rent system, as well as lack of will on the part of the government, resulting in a lack of effective measures.

Rent increase would have greatly affected the interests of the residents of public

⁶⁶ Lu, Fuxin *Zhongguo Fanggai Toushi*, Zhejiang: Hangzhou Daxue Chubanshe, 1993, p4

housing. As housing expenditure did not form part of wages in the past, people were used to the idea of "low rent from low wages", and clung to low rents despite the increase in wages. But the housing reform strategy did not go in tandem with accompanying reforms in the wage system, which was correlated with reform of the financial system and the distribution system. This brought about a deadlock of no increase in rent without an increase in wages, even when there had already been an increase in wages.

Also, local officials did not show keen interest in implementing rent increases. These would have been unpopular with most employees and thus ran the risk of generating social instability. All these factors made it virtually impossible to achieve what was stipulated in the Decision, namely that "rent should in principle reach 15% of the average family income by the year 2000".⁶⁷

Table 4-2 Public Housing Monthly Rent in Beijing in the 1990s (unit: RMB / sq. meter)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999
Rent	0.136	0.18	0.28	0.55	0.87	1.30	1.30	1.30	1.30

Source: Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige-Mubiao Moshi yu Shishi Nandian*, 1999, p.203

⁶⁷ Wang, Xianqing *Zhufang Geming* Guangdong: Guangdong Renmin Chubanshe 1998, pp16-17; Shang, Junfeng *Gaige de Kundian yu Xingfendian* Guangdong: Zhuhai Chubanshe 1998, pp.133-138; Gu, Yunchang "Da fudu tizu youkeneng ma?" in *Zhongguo Fangdich*, Vol.1, 1998, p.22-24; Xu, Man "Gongfang zujin weihe tiaojia" in *Beijing Qingnian Bao* 22nd March 2000; Zhang, Hongming, *Zhuzhai Jingjixue*, Shanghai: Shanghai Caijing Daxue Chubanshe, 1998, p. 374

One outcome of the slow progress of rent reform has been the prevalence of "public housing rented privately" (Gongfang sizu). Some residents were allocated (in fact rented) more than one flat (often illicitly), and then sub-let their spare flat at the market rent.⁶⁸ There was a huge difference between the rental cost of public housing and the market rent. For example, in 1998, a 70-square-meter flat within the fourth ring road area in Beijing, had public housing rental cost of about RMB90 per month, but could be rented out for RMB2000 in the open market. If it was within the second ring road, it could be rented out for more than RMB3000, while the public housing rental charge was still RMB90. Due to such differences in rents, people were able to take advantage of the loopholes in the policy and make large profits out of low rent public housing.⁶⁹

4. 3. Sale of Public Housing (Gongfang chushou)

4. 3. 1. Policy

The sale of public housing was one of the key constituents of the urban housing system reforms in China in the 90s.

The two documents, the Notice and the Directive, spelled out the policy on the sale of public housing. Employees who bought public housing within the stipulated space range could benefit from standard price purchase (biaojun jia), which was lower than cost price. The buyer had partial property rights, including the right of possession, the

⁶⁸ Wang, Jin Ding, Weihua and Tian, Weihua "Beijingshi gongfang sizu wenti de sikao yu jianyi" in *Beijing Fangdichan*, Vol. 4, 1999, p. 30-33

⁶⁹ This account is based on the researcher's own experience as a resident of Beijing

right of disposal, limited trading rights and the right to profit through rent. The housing could be inherited, and sold or rented out in the market after five years from the time of purchase. It was stipulated that the employee's work unit, which was the original owner of the property, should receive priority in buying or renting the property and the proceeds from sale of the property should be distributed according to the property rights ratio between the state, the work unit, and the resident, after the deduction of tax.⁷⁰

In December, 1993, the State Council called the Third National Housing Reform Conference, which decided on the approach of "selling public housing, together with promoting rent increases and the expansion of housing construction", in place of "rent increases, together with the promotion of the sale of public housing and the expansion of housing construction" passed at the Second National Housing Reform Conference in 1991.⁷¹ On the 18th of July, 1994, the State Council issued the Decision. Both the Conference and the Document presented a unified approach to the problem of housing reform in the country, including the principles of selling public housing, the price calculation methods, the depreciation policy and the handling of property rights. According to the Decision, for families with a comfortable income, the market price (shichanjia) was to be applied in selling public housing.⁷² For middle or low-income

⁷⁰ For further details, please see "Guowuyuan Guanyu Jixu Jiji Wentuo di Jingxing Chenzhen Zhufang Zhidu Gaige de Tongzhi" , Document No. 30 of Guofa 【1991】 , Promulgated on 7th June 1991, in *BeijingFangdichan Zhengce Fagui Huibian* Beijing: Beijingshi Chengshi Jianshe Zonghe Bangongshi 1998, pp.415-418 and "Guanyu Quanmian Tuijin Chenzhen Zhufang Zhidu Gaige de Yijian" , Document No.73 of Guobanfa 【1991】 , promulgated by the Leadership Group in charge of Housing Reform under the State Council, in Gao, Shangquan and Chu, Cuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe 1996, pp.790-793

⁷¹ Shang, Junfeng *Gaige de Kundian yu Xingfendian* Guangdong: Zhuhai Press 1998, pp.124-126

⁷² Note: There has not been any practice of public housing's market price until now.

families, the cost price was to be applied. This included land cost, site clearance costs, architects fees, design and planning costs, construction and fitting out cost, provision of utilities, management fee, loan interest and tax. However, when it was not financially feasible to sell public housing to middle or low-income families at the cost price, the standard price could be applied during a transitional period. As far as property rights are concerned, purchasers who paid the market price for apartments enjoyed full property rights, which included the right to sell the apartment in the market, and keep all the proceeds after tax. This contrasted with cost price purchasers who could only sell apartments after five years. On selling an apartment, the vendors had to pay arrears of land lease and the specified tax. People who purchased housing at the standard price received only partial property rights (*bufen chanquan*), which included exclusive user rights (*shiyongquan*), but they were not allowed to sell the property for the stipulated five-year term. For housing under this last category, the original property rights holder enjoyed priority for purchase or rent if the work unit could match the open market price. If no original owners remained, the local government housing management department would acquire the purchase and rental rights.⁷³

4. 3. 2. Philosophy

According to statistics, by 1998, there were about 3500 million square meters of public housing whose rental income was not even enough to cover maintenance and

⁷³ For further details, please see “Guowuyuan Guanyu Shenhua Chengzhen Zhufang Zhidu Gaige de Jueding”, Document No.43 of Guofa【1994】, promulgated by the State Council on 18th July 1994, in Gao, Shangquan and Chu, Cuanheng eds. *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing:

management costs. This forced the state and enterprises to invest around 10,000 million yuan to subsidise the maintenance and management costs of public housing every year.⁷⁴ So, the sale of public housing assumed great significance in the housing system reforms.

Firstly, the sale of public housing was primarily aimed at expediting the recovery of the investment costs, and promoting housing construction. Rental and sale of housing are the two basic forms of commercial activity in the residential homes market. However, due to the different pace of investment cost recovery, their impact on housing construction is very different. For instance, in 1994, 240 million square meters of housing was constructed.⁷⁵ If one-third was sold at RMB500 per square meter, RMB 40 billion could be recovered to invest in new housing construction. But, if rental was charged at RMB1 per square meter, the total annual recovered funds amounted to no more than RMB2880 million. As much of the rent was to be invested in management and maintenance, little was left for new construction. There were 3500 million square meters of public housing in the whole country by 1998, and calculated at RMB400 per square meter (the cost price of public housing in Beijing in 1997-9 was RMB1450-1485 per square meter) the value could reach RMB1,400 billion. If a quarter of it could be sold, RMB350,000 million could be recovered. This in turn would be a significant sum to invest in new housing construction.

Secondly, the sale of public housing could accelerate housing rent reforms. On the one

Zhongguo Jihua Chubanshe 1996, pp.797-801

⁷⁴ Gu, Yunchang "Da fudu tizu youdeneng ma?" in *Zhongguo Fangdichan Vol. 1, 1998, p.22*

⁷⁵ Wu, Huiqin *Zhuzhai Jianshe-Xin de Jingji Zengzhang Dain*, Beijing: Zhongguo Jiancai Gongye

hand, selling public housing to employees can quickly rationalise their housing expenditure; on the other hand it reduces the residential rental space, and thus reduces resistance to the housing rent reforms, which helps increase the dynamics of the reforms.

Thirdly, the sale of public housing helps reduce the financial burden on the state and on enterprises. Until housing rents reach cost level, the state and enterprises can reduce their burden by selling housing.

Finally, the sale of housing can promote the privatisation of housing. From the 60s and 70s, some countries with market economy systems began to adjust their housing policy, by encouraging the private ownership of housing. By the 1990s, the privatisation of housing ownership had become a general global trend.⁷⁶ The advantage of privatisation lies in the fact that it can reduce the burden on the state, and also, in the long-term, be beneficial for residents to buy rather than rent. As a latecomer to housing reform, China can learn a lot from international experience in the privatisation of housing.

4. 3. 3 Problems

1. Selling housing on favourable terms caused great losses to the housing reform fund. The administratively determined cost price was already far lower than the market price in the commercial housing market. For example, the administratively determined cost price of public housing announced by Beijing Housing Reform Office in 1997 was RMB1450 per sq. meter, but the average market price of commodity housing was

Chubanshe, p. 28

RMB4000 per sq. meter. As the location of the property did not make any difference in determining the price of the housing, public housing located within the Third Ring Road in Beijing was uniformly priced at RMB1450 (see Table 2-3), but the market price of such housing was not less than RMB7000.⁷⁷ Moreover, there were various discounts available to purchasers, so they actually paid only 10% to 20% of the market price.⁷⁸ The per sq. meter selling price of public housing was mostly below RMB200, and the most expensive was no more than RMB400, nearly the same as that at the beginning of the reforms.⁷⁹ However, the average price per square meter of commodity housing in China had risen by 13-17 times, from RMB120 - 150 in 1980 to RMB1976 in 1997.⁸⁰ At the end of 1993, when the price of commodity housing experienced a sharp increase, there occurred large-scale panic selling of housing at very low prices. The State Council had to ban the low-priced sale of housing twice at the end of 1993 and the beginning of 1994.⁸¹ In fact, in various places the sale price of public housing was often much lower than the lowest price stipulated by the state, causing a huge loss of national assets. In practice, though the low-priced sale of public housing

⁷⁶ Liuqi, *Zhufang yu Gaige* Urban Development Research Institute 1992, pp221-230

⁷⁷ Wu, Yi "1997 Nian quanguo fangdichan kaifa yu shichang fengxi yiji 1998 nian zhanwang" in *Beijing Fangdichan*, Vol. 2, 1998, pp. 28-29

⁷⁸ Zhang, Zhongjun "Jiakuai zhufang huobi fenpei jizhi zhuanhuan peiyu zhufang jianshe xin de jinji zengzhangdian-shenhua chengzhen zhufang zhidu gaige de silu he zhengce jianyi", in *Zhongguo Fangdichan*, Vol. 5, 1998

⁷⁹ Wang, Xiaoguang Gao, Guoli and Fan, Cairao *Zhufang Tizhi Gaige* Guangdong: Guangdong Jingji Chubanshe, pp. 65-66

⁸⁰ Tan, Jian "The Trend of Commercial Housing's Prices" in *Research on Real Estate Market vol.2, 1998*, an unpublished weekly report on real estate market and policy edited by Beijing Dagana Real Estate Consulting Co., Ltd. p.3; Jiang, Wangrong "1997 Nian Zhongguo Fangdichan Shichang de Fayu yu Fazhan" p.6 (unpublished)

⁸¹ Shang, Junfeng *Gaige de Kundian yu Xingfendian* Guangdong: Zhuhai Press 1998; pp. 124-126

can generate funds in the short term, the funds so generated are often difficult to realise. To make matters worse, in some regions, funds accumulated from house sales were mismanaged, misappropriated or wasted, though the government tried several times to prevent this. As a result, the limited sums generated by the housing reforms were nearly all dissipated. If urban housing continues to be sold off at a low price, it will make future housing reform more difficult.

Table 4-3 Public Housing Selling Prices in Beijing (unit: RMB / sq. meter)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999
Cost price	—	570~ 700	646~ 790	1165	1211	1337	1450	1450	1485
Standard price	390~ 440	401~ 452	425~ 500	701~ 1099	729~ 1143	870~ 1257	943~ 1363	—	—

Source: Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige-Mubiao Moshi yu Shishi Nandian*, 1999, p.203

2. Selling public housing on favourable terms cannot produce a fair return for the housing consumption fund deducted from the employees' wages. Only employees who buy public housing can get a return on their housing consumption fund deductions. Those who do not, or cannot buy, will have none of it returned. This is unfair on those employees who did not buy housing, especially who had not been allocated public housing (not being allocated public housing means one cannot buy it). They have had deductions from their wages paid into the housing consumption fund but have not benefited from this. The purpose of favourable terms was to return housing

consumption fund deductions to employees, but this method failed to achieve this equitably.

3. Selling public housing stock on favourable terms did not resolve the social welfare housing problem.

A great majority of employees can enjoy the benefit of cost price purchase when buying the public housing they occupy, but social welfare housing can only be provided to the small number of families who meet the low-income criteria. The covert allowance given through the preferential terms in the sale of public housing is actually a kind of "universal favour" or "equal sum" allowance. It does not help in the recovery of investment funds, nor does it help very low-income families.

Secondly, most of the public housing was sold to those who were already renting the housing, i.e. those who had already been allocated housing, and they should not have been provided with a second tranche of subsidy. Guaranteeing them cost price purchase could only mean providing an additional covert allowance. Those with housing are given a covert allowance, but those without are not eligible to purchase, and naturally cannot get the allowance. As a consequence, those with housing or with surplus housing gain most of the state's allowances. But families with applications for housing and those without housing received little or no housing welfare allowances from the government. Yet they still had to remit funds, under the covert housing allowance policy, into the unified housing deduction system, in practice subsidising those fortunate enough to have public housing. In short, the preferential housing sale policy had noble intentions, but, as practice proved, selling public housing on favourable

terms in reality amounted to a low-priced sales promotion. It put too much emphasis on sales promotion, and too little on equity and reform.

4. 4. Establishment of Housing Accumulation Fund (Zhufang gongjijin)

In the Housing Accumulation Fund system, a work unit opens a personal accumulation fund account for every employee. Each month, the employees and the work unit deposit a certain percentage of the employees' wages into the account. The account balance belongs to the employees, earmarked for housing consumption. The Housing Accumulation Fund system is in essence a housing insurance system. But the work unit's "contribution" to the accumulation fund is a form of wages for the employees.⁸²

4. 4. 1 Accumulation Fund System

The comprehensive implementation and constant improvement of the Housing Accumulation Fund system is a key part of housing reform. It is a decisive factor in the success of housing reform.

The notion of a Housing Accumulation Fund system is borrowed from Singapore. The Decision that the State Council issued in 1994, the Directive On Strengthening the Housing Accumulation Fund's Administration (Guanyu jiaqiang zhufang gongjijin guanlide yijian) promulgated by the Leadership Group in Charge of Housing Reform under the State Council on August 8, 1996,⁸³ and the Administrative Regulations on the

⁸² Mei, Leru and Xiang, Jing *Zhufang Gongjijin yu Zhufang Xindai* Beijing: Zhongguo Wuzi Chubanshe, 1996, pp.21-22

⁸³ Document No. 35 of Guobanfa【1996】, in Jianshebu zhuzhai yu fangdichanyesi and Jianshebu zhufang zhudu gaige bangongshi eds. *Dangqian Zhufang Zhidu Gaige Zhengce Wenda* Beijing: Zhongguo Wujia

Housing Accumulation Fund (Zhufang gongjijin guanli tiaoli),⁸⁴ which were promulgated by Prime Minister Zhu Rongji on 17th March 1999, all stipulated that a Housing Accumulation Fund system must be established in all administrative institutions and enterprises. Clear regulations were issued over property, payment, employment and so on.

These three documents stipulated that both the employees and the institutions or enterprises should contribute at least 5% of the average monthly wage over the preceding year to the Housing Accumulation Fund. In better-off cities, the payment ratio could be appropriately raised. In terms of its purpose, the Housing Accumulation Fund was first be used to meet the demands of the employees to buy, construct and refurbish their housing. The main purpose in establishing the fund was to solve the housing problems of the employees. If one of the following conditions could be satisfied, the employee could withdraw the deposit balance in their housing accumulation fund account.

1. To buy, rebuild or refurbish the accommodation one was living in or to construct new housing;
2. Retired employees;
3. Employees who had lost the ability to work and had terminated their employment relationship with the unit;
4. Registered permanent residents who had been transferred out of their original cities,

Chubanshe 1998, pp.179-182

⁸⁴ Guowuyuan di262hao ling, promulgated by the Prime Minister Zhu Rongji on 17th March 1999, in *Beijing Fangdichan (Beijing Real Estate)* Vol. 4, 1999, pp. 38-40

or counties, or emigrated abroad;

5. To pay housing purchase loan interest;

6. The rent has exceeded the prescribed ratio of family wage income.

4. 4. 2. Philosophy

1. The Housing Accumulation Fund system facilitates change in housing provision from an in kind benefit to a cash-based wage-linked savings system. It enables institutions to pay employees their housing allowance in cash (though in the form of a bank deposit linked to accommodation provision), to everyone in a standardised manner. This provides the prerequisite conditions for work units to break their ties with residential construction and achieve monetised provision.⁸⁵

2. It can accelerate the accumulation of funds for increased residential construction.

By 1998, 90% of the employees in Shanghai were contributing to the accumulation fund. From 1979 to 1989 investment in housing construction totalled 13240 million yuan, or about 1200 million yuan each year. By the 90s, the annual demand for residential construction in Shanghai was about 3000 million yuan. The accumulated fund grew year by year after the implementation of the housing accumulation policy (see Table 2-4). In 1995, the accumulated fund reached almost 3000 million yuan, equal to the total investment the whole city made in housing under the old system. In the current situation, some rich institutions can spare further funds for residential construction after contributing to the accumulation fund. Thus, the accumulation fund

⁸⁵ Hou, Shiyun and Shi, Zhanpeng *Zhongguo Fanggai yu Zhuzhai Jianshe Wenti Baogao—Hong Lou*

system has helped increase the total investment in residential construction. Those institutions or enterprises whose annual surplus fund was only enough to contribute to the accumulation fund but not enough for their own residential construction have contributed to the construction effort.⁸⁶

Table 4-4 City of Shanghai Accumulation Fund (unit: 100 million RMB yuan)

Year	1991	1992	1993	1994	1995	Total
Accumulated fund	4.23	7.37	13.63	22.04	29.21	77.18

Source: Zheng, Yefu " Chengzhe zhufang zhidu gaige de sikao (xu)" in

Beijing Fangdichan vol.3, 1997, pp12-13

3. It has increased the purchasing power of employees and raised residential construction capacity⁸⁷

First, employees who have contributed to the accumulation fund can resolve their own housing problems by loan financing and thus raising their purchasing power. In Shanghai, for example, the percentage of personal loans in the total loan rose from 1991 to 1995 (see Table 2-5). In 1996, the Housing Accumulation Fund Management Centre of Shanghai provided personal loans of 1000 million yuan, and this increased in the following years. It even planned to stop granting loans to institutions and enterprises. This was of great significance. When the transformation from institutional loan to personal loan is achieved, the accumulation fund policy will exert great influence on a

*Wei Ji*Shenyang: Shenyang Chubanshe 1998, p. 150-151

⁸⁶ Zheng, Yefu " Chengzhe zhufang zhidu gaige de sikao (xu)" *Beijing Fangdichan*, vol.3, 1997, pp.12-13

⁸⁷ Wang, Xianqing Zhufang Geming, Guangdong: Guangdong Renmin Chubanshe, 1998, pp. 90-93

key part of the urban housing reforms - breaking ties with institutions and enterprises, and monetising housing provision.

Table 4-5 Shanghai Housing Accumulation Fund Loans (Unit: 100 million RMB yuan)

Year	1991	1992	1993	1994	1995	Total
Total personal loans	0	0.19	0.4	1.09	4.94	6.62
Institutional loans, direct residential constructional loans and others	0.44	5.47	8.29	19.27	32.81	66.73
Personal loans as % of total loan sum	0%	3.5%	4.8%	5.5%	15.1%	10%

Resource: Zheng, Yefu "Chengzhen zhufang zhidu gaige de sikao (xu)" in

Beijing Fangdichan, Vol.3, 1997, pp12-13

Secondly, the accumulation fund system can ensure a reliable source of funds for housing development. Its low interest loans will lighten the burden on employees and help them solve their housing problem earlier. For example, on a 10-year 100 thousand RMB yuan loan, the personal accumulation fund interest rate is 5.13%, while the commercial housing loan interest rate is 7.65%. In the first case the borrower will repay 1067 yuan per month, while those with a commercial housing loan will have to repay 1195 yuan, a monthly difference of 128 yuan.⁸⁸

Thirdly, the system encourages employees to build up long-term savings, increasing their ability to buy, build or refurbish their housing.

⁸⁸ Unpublished documents offered by the Beijing Zhufang Zijin Guanli Zhongxin, Beijing, 1998

4. 4. 3. Limitations

Though the accumulation fund approach is an efficient way of achieving the goal of monetised provision, and has basically been successful, it still suffers from several flaws at present.

1. The accumulation fund is not retrospective and takes no account of previous deductions from wages even where employees have received no benefit from these.
2. Viewed primarily as a source of low interest loans, the accumulation fund does not produce a good return for savers. The accumulation fund is a personal deposit account offering security and a return on investment. The level of return will directly affect the benefit to all its members. The level of return and the degree of security are also interrelated. The rate of return in Singapore plays an important role in increasing the wealth of the members. A certain return is guaranteed, with interest rates adjusted every six months in line with the market. Apart from investing the deposits in national debt, personal investments were allowed from 1986. Members were allowed to buy specified shares, credit bonds, institutional trust funds and savings guarantee bonds with 80% of their accumulation fund, over and above the obligatory minimum deposit. The trend is gradually to widen the investment scope into the asset fund market.⁸⁹ China's Housing Accumulation Fund has mainly been used as a regulated low interest deposit and loan fund. Little consideration has been given to issues of security and return on investment

⁸⁹ Gao, Shangquan and Chu, Chuanheng "Xinjiapo de zhufang zhidu he gongjijin zhidu" in *Zhongguo Chengzhen Zhufang Zhidu Gaige Quanshu* Beijing: Zhongguo Jihua Chubanshe, 1996, pp.683-689; Zhang, qiguang, "Xinjiapo de zhufang zhidu, gongjijin zhidu ji dui woguo de jiejian yiyi", in *Beijing Fangdichan (Beijing Real Estate)*, Vol.10,1996, pp.38-41.

in its practical operation.⁹⁰

For people who both make deposits and take out loans, the low interest nature of both counterbalances. However, those who do not plan to take out a loan to buy housing and have to contribute to the accumulation fund earning a low rate of interest obviously suffer losses. This violates the mutuality principle.

3. Low contributions, low levels of savings

In practice the contribution rate is still very low, and housing-related expenditure still comprises a very limited percentage of employees' wages. As a result the contribution rate to the public housing accumulation fund has been raised in some provinces and cities. The rate has been raised to 6% in Shanghai and in Jiangsu province, 7%-8% in Guangzhou, and 8% in Beijing. In Shanghai, an additional accumulation fund has been established. Apart from the 6% that individuals and institutions contribute, better off institutions or enterprises can raise their institutional contribution by 1% - 9%. Even when the national contribution average reaches over 5%, the housing consumption fund accounts for no more than 10% of employees' wages. This is far below the 30% in developed countries.⁹¹ Furthermore, although the accumulation fund system has been in operation for a few years, and there are still very low amounts in personal accounts, only 10% in Shanghai (see Table 2-5). It is impossible for employees to buy housing with such small amounts of funds.

4. As solely a housing fund, the Housing Accumulation Fund lacks benefits

⁹⁰ Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* Beijing: Gaige Chubanshe, 1998, p.113

⁹¹ Jianshebu zhuzhai yu fangdichanyesi and Jianshebu zhufang zhudu gaige bangongshi, *Dangqian Zhufang Zhidu Gaige Zhengce Wenda* Beijing: Zhongguo Wujia Chubanshe, 1998, pp.28-29

The accumulation fund system follows the Singaporean model. The central accumulation fund of Singapore began from an endowment insurance fund, and was later extended into housing, medical treatment, education, and family benefits. Now it has become a multi-functional security fund. The success of Singapore's accumulation fund system lies in its overall planning, and multi-function application. The accumulation fund produces generous benefits, especially when endowment insurance and housing are appropriately combined. Its emphasis changes over time as well. During the first half of the employees' membership, the accumulation fund is used for housing. In the latter half it offers lifestyle benefits. This is called "One system with two functions." For both individual employees and their institutions, the expenditure burden is light; fund management expenses are also very low, and so the returns are high.⁹² But the accumulation fund in China is just used solely for housing and it does not have the advantages of the Singaporean version. As a result, Chinese economists have urged that the Housing Accumulation Fund should be increased in value.⁹³

4. 5 Accelerating the Construction of Economic and Practical Housing (Jingji shiyong fang)

4. 5. 1 Policy Details

The Decision treats establishing an Economic and Practical Housing supply system, designed for the middle and low-income families, as one of the basic planks of the

⁹² Zhang, Jing "Guanyu zhufang gongjijin lifa de sikao", in *Zhuzhai yu Fangdichan*, Vol. 3, 1997, pp. 22-25

⁹³ Li, Yining *Zhongguo Zhuzhai Shichang de Fazhan yu Zhengce Fenxi*, Beijing: Zhongguo Wuzi

urban housing reforms. It characterises the construction of Economic and Practical Housing as an ancillary policy of the reform.

The Decision explains that Economic and Practical Housing is low-cost low-priced housing suited to the purchasing power of middle and low-income families. There are different names for Economic and Practical Housing in different parts of the country, such as “xiaokang zhufang” (comfortable housing), “kangju zhufang” (comfortable living housing), “shiyongxing fang” (utility housing), “anju zhufang” (peaceful living housing), and “jiekun zhufang” (problem relieving housing), etc. Economic and Practical Housing features the concept of being both economic and practical. "Economic" means not only good value but also is affordable by the middle- and low-income families, representing a good investment. "Practical" means that the housing must serve its purpose in terms of design and standard of construction, and offer comfortable living. Over time the standards of Economic and Practical Housing will change qualitatively as the rapid development of the national economy and people's rising affluence permit a higher specification.

4. 5. 2. Philosophy

The policy planners and scholars, who support the policy of Economic and Practical Housing, view the policy as aimed at solving the housing problems of middle and low-income residents in a manner, which accords, with the fundamental principles of the market. As a housing supply system with social welfare aims, it should have both

market supervisory and income redistribution functions. Being an important part of the intensified housing reforms, its objectives have been spelled out from the very beginning. It is to be consistent with the objectives of the housing reforms, and aims to establish a new urban housing system that is compatible with a socialist market-oriented economic system, with the goal of commercialising and socialising housing. It also seeks to accelerate residential construction, to improve living conditions, and satisfy the increasing housing demands of urban residents.⁹⁴

1. To attain the housing reform objectives there is a need to accelerate the rate of construction of Economic and Practical Housing.

In constructing Economic and Practical Housing the ultimate goals are to improve the living conditions and satisfy the demand for improved housing of urban residents. Its real purpose is to alleviate the problem of housing shortages, to guide housing investment, and to solve the problems of middle and low-income urban families, by improving their living conditions, enabling them to experience directly the benefits of housing reform. The construction of Economic and Practical Housing has been seen as one of the main ways of attaining the housing reform goals.

2. To achieve basic housing reform, it is necessary to accelerate the development and construction of Economic and Practical Housing.

The construction of Economic and Practical Housing is closely related to other components of the housing reforms. It demands an entirely new system of housing

⁹⁴ Hou, Ximin Ying, Hong and Zhang, Yaping *Weiyou Guansha Qianwanjin* Guangxi: Guangxi Shifan Daxue Chubanshe, 1999, pp. 145-153; Wang, Xiaoguan Gao, Guoli and Fan, Caiyao *Zhufang Tizhi Gaige* Guangdong: Guangdong Jingji Chubanshe, 1999, pp. 220-225

investment, construction, allocation and management supported by appropriate financial policies. Being aimed at middle- and low-income families, it will form a major sector of the real estate market.

3. The role of Economic and Practical Housing in the development of the socialist market-oriented economy.

The Fourteenth Congress of the Chinese Communist Party established the theory of a socialist market-oriented economic system. The Decision restated the intention of "establishing a new urban housing system that is compatible with the socialist market-oriented economic system". Middle and low-income people still accounted for great majority in the 1990s. A "two-legged" approach was to be applied combining market-oriented financial discipline with social welfare objectives. It also defined the roles of the state and the real estate developers in the provision of housing.

4. 5. 3. Problems

The policy is based on a misunderstanding of the market economy. The only effective way of alleviating the housing shortage, balancing supply and demand, and solving the problem of the high price of commodity housing is to establish a market-based system. The introduction of Economical and Practical Housing is just another type of government administrative measure. Evidence from the housing sector before housing reforms indicates that administrative planning measures cannot solve the housing problem. Introduced and promoted by the government, Economic and Practical

Housing will inevitably undermine the commodity housing market because it receives subsidies from the government. Therefore, using Economic and Practical Housing to improve the living conditions and to satisfy the demand for better housing of urban residents, is in conflict with the fundamental goal of commercialising the urban housing sector.

Economic and Practical Housing suffered from the following problems.

1. Weak management

The housing was often designed either beyond the criteria, with the result that the cost was too high, or below the criteria, in which case it did not meet its intended purpose.

Much Economic and Practical Housing was inconveniently situated; facilities were lacking and build quality was poor. Because of these problems, the housing was unable to attract sufficient buyers.

As stipulated, the land for Economic and Practical Housing was usually transferred by the government, free of charge. But land sales were an important source of finance for many local governments. So most cities were reluctant to spare land in the centre of the city for Economic and Practical Housing. Such housing was usually situated on the city boundary, in out of the way places with poor infrastructure. In principle, the infrastructure and 50% of the non-welfare services were to be financed for Economic and Practical Housing by city governments. But due to financial limitations and the scale of the works required, these lagged behind. As a result there was inconvenience for residents and people thinking of buying property in these areas decided against.

What people feared most was poor construction quality. It was very difficult to achieve

high quality at low cost. The Anju housing designed by the Construction and Reconnaissance Engineering Academy of Qinghai province, which was exposed by the media for its serious quality problems, was one example. Towards the end of 1995, in order to solve the housing problems of middle-aged and young technical staff, the Construction and Reconnaissance Engineering Academy of Qinghai province decided to construct a development of 'comfortable housing' with funds raised from the staff applying for housing and an allowance provided by the academy. Construction was started in April 1996 and should have been completed by the end of the same year. But for various reasons, it was not until October 1997 that, after negotiations between the two sides, it was handed over without being checked by the quality supervision department. After the long wait, the excited residents ascended the new building with their door keys but were shocked by the scene in front of them: leaning walls, twisted windows and doors, leaking pipes in nearly every unit, seepage down the walls of many apartments, and water pouring from the drains in some units. The "comfortable housing" became "heartbreak mansion" for buyers.⁹⁵

2. Economic and Practical Housing was not as economical as it was intended to be.

The price of Economic and Practical Housing was not as low as people expected, especially the middle and low-income families. There were several reasons for this. Firstly, the preferential policies supporting Economic and Practical Housing were difficult to implement. Just as a few years previously when the state made a solemn determination to reduce the price of commodity housing but made little progress, many

⁹⁵ Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* Beijing: Gaige Chubanshe 1998, p.51

of the preferential policies met with stubborn resistance and were hard to implement. They impinged on the interests of the local governments and different departments concerned. A twin-track system emerged in land usage for urban residential construction: free transfer for the construction of Economic and Practical Housing and charged transfer for commodity housing. But in actual practice, the land for Economic and Practical Housing was not freely transferred in many regions, and so this policy was a dead letter. Some local governments charged either for their own benefit or because of lack of co-operation between concerned departments. This was one of their "additional incomes". Though administrative transfer of construction land for Economic and Practical Housing was applied in some places, only the land charge was dispensed with, other land taxes were still levied. Secondly, sharp businessmen jumped on the "Economic and Practical Housing" bandwagon to offer commodity housing in disguise. Compared with commodity housing, Economic and Practical Housing can be built quicker and is easier to sell; both of these produce finance savings for developers. With government aid, construction loans for Economic and Practical Housing are provided on lenient terms. Because of these advantages, many real estate developers rush to offer it. According to state regulations, the price of Economic and Practical Housing includes all charges, including construction, provision of utilities, surveying and designing, planning, and so on, totaling seven items, with a maximum profit of not more than 3% specified.⁹⁶ In reality, some developers bought land at a very low price to build Economic and Practical Housing but sold the dwellings at high prices. They did

⁹⁶ Yu, Feng "Jingji shiyongfang ruhe jinru baixiang jiating", in *Beijing Fangdichan (Beijing Real Estate)*,

not follow the state prescribed Economic and Practical Housing pricing structure, but added things that should have been included, lifting up the price. At the same time, the authorities did not exercise enough supervision over the construction and sale of the Economic and Practical Housing, contributing to the price hikes. Thirdly, the cost of ancillary facilities was too high, adding to the construction costs of Economic and Practical Housing. In many countries, the infrastructure costs are borne by the state. Since the Economic and Practical Housing was to be sold to middle and low-income families with limited means, it was appropriate for local government keep costs down by providing ancillary facilities. In practice they forced developers to provide these, and they passed on the costs to the buyers. This is one of the reasons why the price of Economic and Practical Housing was very high. Fourthly, there were no strict checks on intended purchasers. In principle, the intended buyers of Economic and Practical Housing should be middle and low-income families: civil servants, staff of state-run institutions and enterprises, teachers and so on. Though there are rules governing eligible buyers, local governments did not see the need for strict verification of the qualifications of the buyers in order to ensure sales went well. Furthermore, the definition of middle and low-income varies from place to place. As one does not need to have ones eligibility verified to buy Economic and Practical Housing, some higher-income families also purchased E & P housing, but mainly for investment rather than occupation. This had two effects: it inflated the prices of E & P housing, and

affected the price and viability of commodity housing developments.⁹⁷

Finally, the rent of public housing was still much lower than the market rent even by the year 2000, failing to reach the scheduled target of 15% of average family income. Low rents affected people's willingness to buy and thus affected the commercialisation process. The preferential sales of public housing did not receive enough publicity. Different pricing structures for public housing, such as the standard price and the cost price, sent confused price signals and created difficulties in the secondary market, resulting in a disorderly market. Savings levels in the Housing Accumulation Fund were too low, and its administration was ineffective, so it failed to have a significant impact on the market. Promoted by the government as a hybrid commercial and welfare commodity, Economic and Practical Housing was in fact neither one nor the other. Benefiting from government policy, it undermined genuine commodity housing and affected the efficient operation of the market. As one of the main housing reform measures of the 1990s, Economic and Practical Housing conflicts with the goal to commercialise urban housing. All this resulted in the failure of a real market-based structure to emerge. The amount of housing investment made by central or local governments and work units still amounted to a large proportion of the total investment in urban housing. Secondly, the dual price system created two housing markets: an

⁹⁷ Criticism from the developers is especially strong. For more details, please see Pan, Shiyi "Shichang de Wenti Yaokao Shichang de Shouduan Qu Jiejue" and Wu, Yan "Zhechangqiu Women Ti Haishi Buti"; and Ren, Zhiqiang "Kaifashang Suomiandui de Shi Shichang" in *Beijing Fangdichan* vol. 2, 1999; Ren, Zhiqiang "Fangdichan Kaifa zhong de Lilun he Zhengce" in Kan, Jun eds. *Toushi yu Fenxi* Beijing: Zhongguo Renshi Chubanshe 1998, pp. 112, 113; Ren, Zhiqiang "Fanggai dui Shichang Jingji de Yingxiang" and "Fanggai Zhengce he Shichang Jingji de Guanxi" in Kan, Jun eds. *Toushi yu Fenxi* Beijing: Gaige Chubanshe 1999, p.194 and p.202

'internal housing market' and an 'open housing market'. The former still follows the old welfare housing system. The latter is very limited in its range and size. Thirdly, rent reform failed to stimulate investment by individuals in housing and the rent for public housing still is subsidised by the government and by work units. One can argue that the reforms have not fundamentally changed the old housing system.

Chapter 5 Monetised Housing Provision - A New Era in Housing Reform

5. 1. Flaws in the Four Housing Reform Measures

As can be seen from the analysis in the previous chapter, despite considerable achievements in the housing reform over the past decade, the four housing reform measures (rent reform, sale of public housing, creation of the Housing Accumulation Fund and development of Economic and Practical Housing), failed to promote the commercialization of housing as expected. The reform program did not really change China's earlier welfare in kind housing allocation system. Apart from the four disadvantages described in Chapter 1, the welfare in kind allocation system manifested a series of further drawbacks that became increasingly marked.

First, a cycle of "sale and re-sale" occurred in many work units during the implementation of the reform programme. Many dwellings, which were built as commodity housing, were collectively purchased by work units, including state-owned enterprises and governmental institutions, bringing newly built housing back into the old allocation system. The so-called "public housing discount " became a kind of legalised cut-price sale, which even applied to newly built homes. Many work units bought commodity housing at a high price in the market, which they then sold on to their staff as "public housing" at the "housing reform plus discount" price. In 1996, 301 million sq. meters of new housing was constructed all over the country, with 66% of

this either built or purchased by work units for distribution to their employees.⁹⁸ This contributed to the abnormally high-price of ordinary commodity housing during the transition stage from the old housing system. It resulted in prices well beyond the purchasing power of middle-income families. As a consequence, a strange dichotomy appeared in China's real estate market. On the one hand, China had 70 million square meters of vacant commodity housing for sale, yet on the other hand, it had over 4 million families suffering from serious housing shortages.⁹⁹ The high price of commodity housing not only hindered the steady development of the housing industry and restricted the growth of the economy; it also deprived many families of the possibility of owning their own residence. This gradually turned into a social problem. Secondly, the housing industry was stuck in a vicious circle of "investment without efficient production". The housing reforms did not radically change the existing housing system because the welfare in kind housing allocation system, in which the work unit constructed housing and allocated it to the staff, produced no measurable output. Therefore, the more houses that were constructed and allocated, the more money was lost. According to Mr. Kang Shaoting, vice president of Beijing Real Estate Research Association, during the period of "the Eighth Five-Year Plan" (Bawu jihua) in which China's economy enjoyed rapid growth, investment in housing reached its peak at RMB 831.5 billion, with 1 billion square meters of residential housing being built. The annual investment at this time reached RMB 166.3 billion, 50% of which came

⁹⁸ Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige—Mubiao Moshi yu shishi Nandian*, Beijing: Minzhu yu Jianshe Chubanshe, p. 14

⁹⁹ See Introduction

from the government or state-run institutions. The housing that was built still fell into the welfare system (both through housing allocation and the sale of public housing at housing reform prices). Kang's calculations, based on statistics provided by the Real Estate Industry Department of the Construction Ministry, revealed that commodity housing from the old system constituted 40-50% of the total urban public housing stock. On the other hand, with the increase in the stock of the public housing, which still operated under the old housing system, and with the increase in average per capita living space, the government had to pay out more welfare allowances, adding to its financial burdens. As Kang reported, in 1978, when the average urban per capita living space was 3.6 square meters, the housing rent allowance provided by the government or work units was RMB 28.08 per capita annually. However by 1995, when the average per capita living space had reached 8.1 square meters, the annual housing allowance per capita was as high as RMB 1960, about 50% of the annual average per capita cost of living, making housing the biggest slice of the welfare allowances.¹⁰⁰ With the reversion of newly constructed housing to the old housing system and the rise in house prices, the cost of commercialisation of housing was increasing too, at an annual rate of 30%.¹⁰¹ In other words, if the housing allocation system remained unchanged, the more residential apartments that were built, the more housing would revert to the old system, and the higher the cost of housing reform, and the more difficult it would be to implement. This made the monetisation of housing essential.

¹⁰⁰ Interview of Mr. Kang Shaoting by the writer in May 1998.

¹⁰¹ Li, Tieying "Quanmin guanche luoshi jue ding, jiakuaijianshe chengzhen zhufang xin tizhi" in *Fangdichan bao* 5th December, 1995

5. 2. Background to Monetisation Policy

The improvement in social and economic circumstances brought by the post-1978 Reform and Open Door policy not only made the need for reform of housing allocation more urgent, it also provided favourable conditions for the monetisation of housing allocation.

5. 2. 1. Monetisation as the Answer to Reform Deadlock

1. The conflict between welfare-in-kind housing provision and work-based provision

Housing provision in kind was based on the idea of egalitarianism within a work unit, and as such was unable to motivate the employees to improve their work performance. Secondly, it could result in malpractices and an inequitable distribution of advantages and disadvantages between different work units and between individuals. Whether one was allocated a flat, to a great extent depended on the housing resources of a work unit, and not on individual's work contribution. Leaders of work units abused their power and gave themselves superior or additional accommodation. This led to under-utilisation of accommodation while most people were struggling on over-crowded conditions. Only through monetisation was it possible to relate accommodation entitlement to work achievements. With monetisation, a person's housing allowance is included their pay and entitlement to accommodation increases with salary. This also resolved the labour mobility problems resulting from housing being tied to the work-unit.

2. Conflict between in kind housing provision commercialisation

First, in kind housing provision diminished people's desire to buy their own homes. The savings of employees were not being used to finance housing construction. They relied instead on the government and their work units to solve their housing problems. This was called "waiting for, depending on, and asking for". If their work units could allocate housing, even though employees had millions of yuan in savings, they would not be willing to go into the real estate market to purchase their own property. They used their savings for other things. In 1997, the housing costs of a Chinese family were only 3.55% of income, even less than the cost of water, gas and electricity (see Table 3-1). Monetisation forced employees to take personal responsibility for housing and thus change their consumption habits and motivate them into making a housing purchase. Secondly, in-kind housing allocation had depressed cash incomes. However, housing commercialisation requires that housing be charged and sold according to its real value. This made it unaffordable, dampening demand in the real estate market. In the late 1990's, the average price of a standard commodity housing apartment in China stood at a ratio of 6 to 7 against the average family annual income. In comparison with international norms, where the ratio is between 3 and 6 or optimally 5,¹⁰² it seems that Chinese was approaching the international standard. However, this ratio did not reflect the differences between different cities. In China, the price differential of residential property in big cities and small towns differed greatly (see Table 3-2). The price of housing in big cities might be 10 times higher than that in small towns, but the income

¹⁰² The World Bank *China: Implementation Options for Urban Housing Reform*, Washington, D. C.,

difference was far lower. The average family income in Beijing and Shanghai was at most 2 or 3 times that of small towns. In big cities like Beijing and Shanghai, the price of one square meter of housing in a fairly good location could cost from RMB 6000 to RMB10000. The price: income ratio was between 12 and 18 to one. So in big cities such as Beijing, employees cannot possibly afford commodity housing. To increase the purchasing power of employees, the housing consumption proportion of an employees' pay needed to be raised, and monetisation of housing distribution needed to be introduced. Thirdly, housing distributed in kind was not a commodity and could not enter the market. This weakened the housing supply market.

Table 5.1 Housing Expenditure as a Percentage of Total Urban Family Expenditure

Year	1992	1993	1994	1995	1996	1997
Total expenses (yuan/person)	1672	2111	2851	3538	3919	4186
Housing	2.14%	2.51%	2.77%	2.93%	3.17%	3.55%
Utilities	3.82%	4.12%	4.00%	4.14%	4.51%	5.02%

Source: *Zhongguo Tongji Nianjian* 1993/1995/ 1996 and *Zhongguo Tongji Zhaiyao* 1998
China's Statistics Abstract 1998

Table 5. 2. Ratio of Housing Costs to Family Income in Cities and Provinces in 1995

Provinces and cities	Average price of commodity housing (RMB yuan/square meter)	Average per capita annual family income	Housing price/family annual income
Beijing	3226.52	6235.00	9.61
Tianjin	2119.43	4929.53	7.99
Shanghai	2478.53	7179.77	6.40
Guangdong	2819.77	7438.70	7.04
Hubei	2187.50	4028.63	10.09
Hunan	869.57	4699.23	3.44
Henan	780.02	3299.46	4.39
Gansu	1169.87	3152.52	6.89
Qinghai	1032.27	3319.85	5.78
Xinjiang	1334.41	4163.44	5.95
National mean	1612	4282.95	6.99

Source: *Zhongguo Tongji Nianjian1996* and Jianshebu zhuzhai yu fangdichanyesi and Jianshebu xinxi zhongxin “1995 Nian fangdichan kaifa fenxi baogao”

3. The conflict between in kind housing allocation and employment system reform

In a market-oriented economy, the housing allowance is included in the employees' wage, paid monthly or weekly, so employees have to save for years before they can afford to buy a home. However, under the in-kind allocation system, the allocation is inflexible and can only be made once. This meant that the future housing allowances were paid ahead of time so that those employees who had been allocated housing were

forbidden to leave their job unless they turned over their residence to their work units. Those who had no housing allocated to them were reluctant to leave, as they had not received their entitlement of housing wages. Thus employees established a binding relationship with their institutions, making the normal flow of labour difficult. This went against the requirement of a market-oriented economy for reasonable labour mobility. So, in kind housing provision formed the critical factor that blocked reform of the employment system.

4. The conflict between in kind housing provision and the development of market-led ownership

Since implementation of the Reform and Open Door policy, the number of non-state-run enterprise employees as a percentage of the total employee population has increased contributing to the formation of the dual-track system in housing provision. The monetised system was applied to non-state-run enterprises. Employees earned a much higher salary compared with that of state-run enterprise employees but had to purchase their housing in the market, as the enterprises did not offer housing. In state-run enterprises, the in kind housing provision system was still in operation. Hence, there emerged the "one family, two systems" (yijia liangzhi) phenomenon. One member of the couple applied to their government institutions or state-run enterprise employer for housing, while the other earned high pay in a foreign enterprises or similar. In effect, the housing of the employee of the non-state-run enterprise was actually provided by the state-owned institutions, thus greatly increasing the burden on state-owned

institutions, especially state-run enterprises.¹⁰³

5. The conflict between in kind housing provision and the establishment of a modern enterprise system

In a modern enterprise system, the goal of enterprise management should be to work efficiently and generate a profit. The living problems of employees should be solved by the employees themselves in the market, and not by enterprises, which do not have the expertise to solve these problems. However, in-kind housing provision turned every enterprise into a property company. The investment of manpower, material and financial resources in property management rather than the enterprise's main business formed an obstacle to increasing profitability and competitiveness. Statistics provided by Dr. He Maochun, researcher at the International Economic and Trade Research Institute, indicated that the annual investment by state-run enterprises in housing construction and maintenance from 1992 to 1994 was 1400 billion RMB yuan. With interest costs added, the total annual housing expenditure of the state-run enterprises amounted to around 1600 billion RMB. This was a heavy burden for the enterprises.¹⁰⁴ This was also one of the main reasons for the slow development of state-run enterprises. When housing provision is monetised, the housing allowance of the employees is built into their wages, so employees no longer ask their leaders for housing but go into the real estate market themselves and purchase their own housing. They do so according to

¹⁰³ Hou, Ximin Ying, Hong and Zhang, Yaping *Weiyou Guangsha Qianwan Jian* Guilin: Guangxi Shifan Daxue Chubanshe 1999, p. 32

¹⁰⁴ Interview to Dr. He Maochun, writer of *Zhongguo duiwai Jingmao Baipishu*, in February 1998; Zhang, Qiguang, "Fuli fenfang shouzhong zhengqin, huobi fenpei daju yiding", in *Beijing Fangdichan (Beijing Real Estate)*, Vol.4, 1998, p.8

their personal resources, causing housing provision to be better distributed. So, only through monetisation of housing could government institutions and enterprises be freed from the heavy pressure of housing construction and allocation, and thus improve their working efficiency.

6. The conflict between in-kind housing provision and industrialization of housing supply

The development of the housing industry could stimulate a series of industries to develop alongside it. Not only could it give direct impetus to the development of the construction, decoration, building material, electrical home appliance and furniture industries, it could also bring along the development of more than 50 related industries like the steel industry, mechanical and electrical industry, textile industry, chemical industry and transportation industry. The industrialization of housing development depended on continuity in investment, but the existing system was a black hole for funds, swallowing up endless government money but not even producing enough in rent to cover the maintenance. It was hard to maintain the existing stock, let alone increase it. The more residential housing was constructed, the bigger the losses. Furthermore, the cost of the uncoordinated construction and maintenance by different work units was high. Under such a system, it was very difficult to upgrade housing, and it was hard to improve the living conditions of the employees. If housing distribution could be monetised, the new investment generated by real estate development enterprises could be employed in the construction, and sale of residential housing. Housing construction could be transformed from unplanned, scattered owner-building,

to co-ordinated development carried out by specialists. Housing management would change to professional, specialized management. Thus only through monetisation of housing provision could the overall standard of housing production be raised, the living conditions of employees improved, and the professionalisation of housing construction and management finally achieved.

5. 2. 2. Background to Monetisation

1. The consumer awareness of Chinese residents was gradually increasing. More and more employees began to resort to the market to solve their housing problems instead of just waiting for their work units to allocate housing to them. The survey of national consumption intentions conducted by China Real Estate Information Centre in 1997 indicated that half of urban citizens had the intention to purchase their own residence, while only 30% were reluctant to make the purchase.¹⁰⁵ The percentage of private ownership of residences kept increasing (see Table 3 - 3), as did the percentage of individual purchases of commodity housing (see Table 3 - 4). The housing sold from January to November 1997 increased by 115% compared with the same period in 1996, with individual purchases accounting for 58.7%, 27.7% higher than the same period in 1996.¹⁰⁶

¹⁰⁵ Interview to Mr. Hu, Lujun

Table 5-3 Ratio of Private Ownership of Urban Housing

(Unit: ten thousand square meters)

Year	Total urban residence area	Private residence area	Proportion of private ownership (%)
1990	199553	48362	24.24
1991	216450	65368	30.20
1992	239549	70544	29.45
1993	259580	79521	30.63
1994	291377	94564	32.45

Source: Jianshebu “*Chengshi Jianshe Tongji Nianbao*” (1990-1994)

Table 5-4 Sales of Commodity Housing

(Unit: ten thousand square meters)

Year	1990	1991	1992	1993	1994	1995	1996
Actual area sold	2545	2745	3812	6035	6118	6787	6898
Individual purchases by area	731	927	1456	2943	3345	3345	3667
% of individual purchases	29%	34%	38%	49%	55%	49%	53%

Source: *Zhongguo Tongji Nianjian 1997* Beijing: Zhongguo Tongji Cubans 1997

2. Increased purchasing power of Chinese employees

1). The ratio of house price to income in some regions in China had entered a

¹⁰⁶ Liu, Lifeng “1997-1998 Nian Guding Zichan Touzi Xingshi” in *Beijing Fangdichan* vol. 2, 1998

reasonable level. From Table 3-2, it can be seen that the interrelationship between annual family income and the ratio of house price to income in different regions demonstrates a "U" curve. In most small towns, the price of commodity housing in the second half of the 1990s ranged from 600 to 800 RMB yuan per square meter. The ratio of price to annual household income reached the reasonable range of 3 to 6 times. Middle-income families in middle sized cities or small towns could now afford a commodity flat of 60 square meters.

2). Monetisation of housing distribution was applied to a considerable number of people. The reform of the employment system deprived the in kind housing provision system of support. Some state-owned enterprises abandoned the system of in kind provision, and added a housing allowance sum to employees' wages in the same way as joint ventures and private businesses. Those who worked for profitable joint venture and domestic enterprises enjoyed a high income and sufficient housing allowance within their wages. For the self-employed (getihu) and managers of collective enterprises (jiti qiye), whose income and expenditure already operated according to market laws, there was no arrangement for the deduction of housing expenses from their wages. With the implementation of the Reform and Opening Up policy, the percentage of employees in non-state economic units increased (see Table3-5), indicating a decreasing proportion of in kind housing provision and an increase in the monetisation of housing.

Table 5-5. Proportion of Urban Employees in Various Types of Economic Units

(Unit: %)

Year	State-run	Collective	Joint venture	stock company	Foreign investment	Hong Kong, Macao and Taiwan investment	Other types	Private enterprise	Self-employed
1978	78.3	21.5							0.02
1990	62.3	21.4	0.06		0.04	0.002	0.001	0.03	3.70
1991	62.8	21.4	0.03		0.06	0.04	0.001	0.04	4.08
1992	63.2	21.0	0.03		0.08	0.05	0.003	0.06	4.29
1993	62.1	19.3	0.04	0.09	0.08	0.09	0.01	1.06	5.29
1994	60.9	17.8	0.03	1.59	1.06	1.15	0.005	1.80	6.65
1995	59.0	16.5	0.03	1.66	1.26	1.42	0.006	2.54	8.17
1996	56.7	15.2	0.02	1.83	1.39	1.34	0.005	3.13	8.62

Calculation based on *Zhongguo Tongji Nianjian 1997*

3). Bringing the privatised public housing to market greatly increased the purchasing power of employees. 1995 to 1997 was the period, which witnessed the most rapid privatisation of public housing since the reform was initiated in 1978. Private housing ownership increased from 32.45% in 1994 to 55.8% in 1998, and to 60% in some cities and provinces.¹⁰⁷ This increase in private housing ownership was a result of selling off public housing. If the privatised public housing could be put on the market, it could

¹⁰⁷ Jianshebu zhuzhai yu fangdichanyesi and Jianshebu zhufang zhudu gaige bangongshi *Dangqian Zhufang Zhidu Gaige Zhengce Wenda* Beijing: Zhongguo Wujia Chubanshe, 1998, p.7

greatly enhance the purchasing power of the employees. Take Shanghai for example. From 1993 to the end of March 1999, 740.4 thousand public apartments were sold, accounting for a construction area of 39.72 million sq. meters. From August 1996 to March 1999, 16,000 privatised public apartments were put on the market, with 80% of sellers buying new apartments using an extra investment averaging 160,000 RMB per family.¹⁰⁸ 4. The rental cost of public housing increased relatively (see Table 3-6). The percentage of housing expenditure as a proportion of the total for urban citizens kept increasing (see Table 3-1). Housing rent as a proportion of urban families' total income also increased. Economic rents appeared in some cities and enterprises.

Table 5-6. Public Housing Rent Changes

	Unit (yuan/m ²)				
	1993	1994	1995	1996	1997
Beijing	0.28	0.55	0.87	1.30	1.30
Xi'an	0.33	0.42	0.68	1.16	1.51
Xiamen	0.70	0.70	1.40	1.70	1.96
Shenzhen	2.06	3.46	3.46	7.67	7.76

Source: Lu, Youjie "Zhufang fenpei jizhi zhuanhuan de xianshi yiyi he zuoyong"

Zhongguo Fangdichan, Vol. 6, 1998

2. Necessary pre-conditions for monetisation

¹⁰⁸ Li, Yining *Zhongguo Zhuzhai Shichang de Fazhan yu Zhengce Fenxi*, Beijing: Zhongguo Wuzi Chubanshe, 1999, p. 219

(1) The Housing Accumulation Fund system to be operating all over the country. In 1994, the national Housing Accumulation Fund amounted to 11 billion RMB, over 20 billion yuan in 1995, and 39.3 billion yuan in 1996¹⁰⁹ By 1998, the Housing Accumulation Fund system extended to 35 big cities and 223 medium sized cities in 31 provinces, including 65% of their total employee populations. By June 30, 1998, the total national fund was 89 billion yuan. Many cities and institutions had raised their payment ratio for Housing Accumulation Fund or had established a supplementary housing accumulation fund system.¹¹⁰ This not only provided funds for the monetisation of housing provision, it also enabled the work units to pay their employees a cash housing allowance as part of their wages (though in the form of a deposit). This established the precondition for work units to cease housing construction, and set the pattern for housing allowance monetisation.

(2) A basic housing finance system had been established. Personal housing finance composed of the Housing Accumulation Fund loan and a commercial bank loan, opened a new channel for individuals to finance house purchase. The housing credit structure changed from one aimed at supporting housing developers to one supporting the housing finance of individuals. The percentage purchasers could borrow was also increased. In 1998, housing loans granted by commercial banks were set at 15% of the newly increased figure. At the beginning of the same year, the Construction Bank of China planned to grant 35 billion RMB of individual

¹⁰⁹ Guowuyuan Fanggaiban, "1996 Nian quanguo fanggai gongzuo zongshu", in *Zhuzhai yu Fangdichan* Vol.1 1997; p.15

¹¹⁰ Jianshebu zhuzhai yu fangdichanyesi and Jianshebu zhufang zhudu gaige bangongshi, *Dangqian*

housing loans, the Industrial and Commercial Bank of China planned to grant 20 billion RMB, and the Agricultural Bank of China planned to grant 10 billion RMB.¹¹¹ The number of financial institutions permitted to offer housing loans was increased, with all the independent commercial investment banks, the Communications Bank and housing savings banks now permitted to offer such loans.

5.23. International and Domestic Background

1. On the basis of international experience and China's actual situation, the moment for monetisation of housing provision had already come. A general survey of the economic development of each country shows that an average per capita income of US\$300 to US\$1000 per year is the key to economic take-off. One of the features of this economic development phase is the rapid development of housing and the real estate industry. For instance, Great Britain, France, and Germany's investment in residential construction and real estate accounted for about 40% of their total investment during their economic take-off stage. Housing construction played a pivotal role in modernization. In 1997, the per capita gross national product of China reached US\$690, showing that China had arrived at such a key stage. It was of strategic significance to take advantage of the favourable conditions of stable price and satisfactory finance to intensify housing system reform, speed up housing commercialisation and develop housing consumption. This would help adjust the national economic structure, promote the upgrading of

Zhufang Zhidu Gaige Zhengce Wenda Beijing: Zhongguo Wujia Chubanshe, 1998, p.6

industries, and ensure sustainable and healthy development of the national economy.¹¹²

2. Change in national income distribution facilitated housing provision monetisation.

Since the implementation of the Reform and Opening policy, China has witnessed great changes in its income pattern. The general tendency has been for personal income to increase while the national fiscal revenues have decreased because of lower government deductions from wages. In 1978, national fiscal revenue amounted to 31.2% of GDP. By 1997, this had dropped to 11.4%.¹¹³ Under such an income pattern, it was not appropriate to follow the old housing system, which was dependent on the government and state-run enterprises for investment in housing construction. Firstly, the government and the state-run enterprises could no longer bear such a burden. Secondly, with the residents relying on work units for housing an abnormal consumption structure had emerged. For example, decoration costs were higher than the amount paid for a residential apartment at the housing reform price. Thirdly, residential construction levels were too low to satisfy the growing need of residents for housing.

3. Patterns of macro-demand and micro-demand

As is well known, a special feature of Chinese consumption is "wave consumption". That is to say, consumers are moved to purchase the latest product at the same time as others, creating a sharp peak and trough pattern. The 1980s witnessed the mass-purchase of the "three major possessions" (san dajian, namely the television set,

¹¹¹ Beijingshi Zhufang Zijin Guanli Zhongxin "Geren Zhufang Daikuan Wenda" 1998 (unpublished)

¹¹² Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* The Reform Press 1998; pp.71-72

¹¹³ Jianshebu zhuzhai yu fangdichanyesi and Jianshebu zhufang zhudu gaige bangongshi, *Dangqian*

refrigerator, and washing machine), as the major goal of each family. However, from the beginning of the 1990s, when the purchasing power of urban residents exceeded the 10,000 RMB level, the expenditure became less conspicuous and was held back for a long time, with no new must-have items. Expensive housing and cars naturally became a possible target for consumption. This heightened the appeal of the monetisation and commercialisation of housing.

4. Housing reforms gained further urgency and became an area of national focus in the wake of the Asian Financial Crisis. Boosting domestic consumption was at the cornerstone of China's strategy to weather the effects of the crisis and maintain the stipulated growth rate of around 8%. Housing construction was chosen as one of the sectors that could make a significant contribution towards the growth of domestic demand. A series of initiatives was launched to encourage people to buy their own housing.¹¹⁴ This would greatly promote the monetisation of housing distribution.

5. 3 Details of Monetisation Policy

5. 3. 1. Definition

Based on a summary of successes achieved during the years of housing reform, and an analysis of the existing problems, on 3rd July 1998, the State Council issued The Notice on Intensifying Urban Housing Reform and Accelerating Residential Construction

Zhufang Zhidu Gaige Zhengce Wenda Beijing: Zhongguo Wujia Chubanshe, 1998, p.21

¹¹⁴ Zhao, Guangren and Qi, Zhaozhen, "1997 Tianjinshi fangdichan shichang xingshi yu fazhan zhuzhaiye" in *Zhuzhai Jianshe-Xin de Jingji Zeng-zhangdian* Beijing: Zhongguo Jiancai Gongye

(Guanyu Jinyibu Shenhua Chengzhen Zhufang Zhidu Gaige Jiakuai Zhufang Jianshe de Tongzhi). The Notice (1998) focused on clarifying the relationships between issued involved in housing reform. It set new policy objectives and basic principles for reforms in supply, provision and change of occupancy. A survey of the general situation showed that a rational housing provision pattern should be the first step. How to develop such a pattern was considered the core of housing reform. The Notice (1998) clearly directed that in kind housing allocation be stopped in the second half of 1998 (later deferred to 1999), and housing provision be gradually monetised.

The monetisation of housing provision meant that: "housing provision is included in cash wages according to the individual's personal basic payment, length of employment and work performance".¹¹⁵ The real purpose here was to change from in-kind to monetary provision and make this the primary form. Specifically, there were two principal agents involved in kind provision: the state (or work unit) and the employee. In monetised housing provision, there were three principal agents: the state (or work unit), the employee and the market. The state (or work units) would provide wages according to the employees' work, which included sufficient housing allowance. The employees would rent or buy homes in the market with their cash wages. As the macro regulator, the government should develop a new regulatory structure for the market, to enable it to satisfy the housing requirements of employees.

According to the theory of value, monetisation of housing provision should ensure that housing allowances deducted from employees' wages as a social resource should be

Chubanshe, 1997, p.64

repaid to employees in their wages. The part of the housing consumption fund that had been incorporated into the gross product of the country should be separated out and included in employees' wages according to the value of their labour. The employees could either rent or buy accommodation in the market with their wages. Personal housing consumption funds deducted under the old system, which were used by state enterprises to build public housing, should also be returned to employees. Thus, monetisation of housing provision should go hand in hand with payment system reform.

In terms of distribution channels, instead of using an administrative system, housing was to become a commodity to be put into the market so that the employees could choose their own residence. This would completely free employees from dependency on their work units for housing. The new system would guarantee a certain cash housing allowance in the employees' wages, and this would gradually be increased.¹¹⁶

5. 3. 2 Implementation

There were three basic models.

1. All the costs of buying or renting accommodation to be borne by employees.

Foreign enterprises in China, and some private businesses applied this system. Their employees earned a relatively high salary, had sufficient income for food, clothing, housing and transportation, and no longer expected their company to provide housing.

¹¹⁵ Deng, Xiaohu "Gaige xinlu-zhufang fenpei huobihua" in *Jinrong Zaobao*, 25th February 1998

¹¹⁶ Jia, Guangbao and Xu, Youquan "Tuo zhan zhufang fenpei huobihua: duice silu" in *Zhongguo Fangdichan Xinxu*, Vol. 4, 1998, p. 8

Incorporate housing costs entirely into wages is the ultimate form of housing commercialisation, and is the goal of housing reform. But due to slow progress in pay reform and state enterprise reform, the time for this to be applied nation-wide had not yet come.

2. Make full use of the Housing Accumulation Fund.

Getting employers to pay into the Fund produced earmarked savings and turned a "covert allowance" into an "overt allowance". It forced employees to accumulate savings for housing. This will gradually be incorporated into the employees' income. In this way, the Housing Accumulation Fund is an effective form of monetised provision.

3. Raise housing allowances.

Where it was difficult for employees to purchase or rent commodity housing with their wage income and Housing Accumulation Fund, it was necessary for institutions to raise their employees' housing allowance to achieve monetisation of housing provision.

The sixth item in the Notice (1998) stipulated that:

"after the abolition of housing distribution in kind, if the ratio of housing price and income (that is the ratio of the average price of a local Economic and Practical Housing apartment with an area of 60 square meters to the average income of a two-employee family) is over 4 times, and in areas where housing finance and the housing construction fund can be changed into housing allowance, housing allowance policy should be applied to those employees who have no residence or whose living space has not reached the stipulated standard."¹¹⁷

There are three ways of providing a housing allowance: a one-off payment, a monthly payment and a combination of monthly payment and one-off payment. The housing

¹¹⁷ see "Guanyu Jinyibu Shenhua Chengzhen Zhufang Zhidu Gaige Jiakuai Zhufang Jianshe de Tongzhi", in *Beijing Fangdichan Zhengce Fagui Huibian* Beijing: Beijingshi Chengshi Jianshe Zonghe Bangongshi 1998, pp.399-401

allowance pattern is an overt allowance. The value of this lay in the fact that only an overt allowance could break the links between the work unit and the construction, purchase and sale of housing. After the housing construction and purchase fund of an institution was turned from covert allowance into a totally overt allowance, under which the institution paid a monetary housing allowance to its employees, the institution was able to break the housing provision umbilical cord with its employees.. On most occasions, this could be achieved through providing a housing allowance as a transitional measure, and later incorporating this into wages. This had happened successfully in the case of grain and oil price reforms.

The allowance programme included only those employees without housing or whose housing had not reached the stipulated living standard. The reasons for this were explained by the policy planners as follows. Employees who had received a covert allowance in kind should be treated differently from those who had not. For those without housing and those who had not reached the stipulated housing standard, when they acquired a new residence to improve their housing, this should not be by the in-kind system, but they should be helped with a housing allowance to achieve their goals in the market. Those who had reached the stipulated housing standard would enjoy the government's in-kind discount allowance. No housing allowance would be given to them in money. This was the principle of: "new staff, new policy; old staff; old policy" (xinren xin banfa, laoren lao banfa) which the Notice (1998) adopted while emphasizing "stopping provision in kind, implementing monetised provision" (tingzhi shiwu fenpei, shixing huobi fenpei). The resources for the housing allowance fund



came from the budget for residential construction and housing purchase. Therefore aid should first be given to those who had no housing of their own and those who had not reached the stipulated housing standard so they could buy their own homes.

The Notice (1998) stipulated that in those regions where the ratio of house price to income was 4:1 or lower, where saving 20% of income or less over 20 years would enable a family to buy commodity housing with an area of 60 square meters, no housing allowance would be paid.

5. 3. 3. Misinterpretations

Due to a one-sided interpretation of The Notice (1998), there existed some misunderstandings of monetised housing distribution

1. There was belief that monetisation of housing provision meant employees who satisfied the conditions would be given a sum of money equal to the cost of housing for them to purchase on the market instead of being allocated an in-kind residence. This "turning residence into money" approach was actually a variant of the old housing provision system, with just a change in form from in-kind to money. There was no change in essence. To buy a flat, an employee needed to save for a long period, possibly a lifetime. It could not be achieved in only a few months or years of saving. Both one-off payment and in-kind provision follow the concept of "allocating a residence" rather than incorporating housing consumption into wages. The result could only be "employees depending on the state or the state enterprises for housing" rather than incorporating housing costs into a family's consumption budget. This went against the

policy of housing commercialisation. No work unit could spare so much money as for an employee welfare payment. One of the principles for the intensification of housing reform was to establish a rational share of responsibility between the government, the work unit and the individual.

2. Another misconception was taking monetisation of housing provision as granting a housing allowance to everyone, as treating monetised distribution as identical to a housing allowance. In truth, the two differed in many aspects. Monetised housing provision included raising wages, establishing the Housing Accumulation Fund and adding a housing allowance. China is a large country with many cities, so naturally the economic development and house prices differed greatly from place to place. However, the employees' income in different regions differed relatively less, resulting in significant housing price/income ratio differences. In small towns where the housing price was low, ordinary residents could afford a house with their wages, with no need for additional allowances. This was referred to as "achieving the goal in one step". In medium-sized and small cities, where house prices were not too high, there was a need for the Housing Accumulation Fund in addition to employees' wages, in order for them to buy their own residences. This was referred to as "achieving the goal in two steps". In big cities like Beijing, Shanghai, and Guangzhou, where house prices were much higher, in addition to the Housing Accumulation Fund an extra housing allowance was needed to enable employees to buy homes. This was referred to as "achieving the goal in three steps."¹¹⁸

¹¹⁸ Gu, Yunchang, Chang, Xinghua and Wen, Linfeng *Shuo Fanggai Hua Maifang* Beijing: Jingji Kexue

3. The third misconception lay in taking monetisation to mean the complete abandonment of welfare housing provision. This resulted from a failure to distinguish welfare provision from in kind provision. Monetised housing provision is the basis of China's housing reforms. It is based on the abolition of housing provision in kind. This does not mean the ending of welfare housing provision. Welfare housing provision means that when the residents do not earn enough income to buy or rent housing at the market price, the government grants usage at a low rent or sale at a special price, as an allowance or as social welfare relief. Welfare housing provision is a necessary part of the social security system. Provision in kind was intended for the vast majority of employees, while welfare provision should be limited to a minority group; in kind provision was basically free allocation, while welfare provision should not be totally free, and so still conforms to the monetisation concept.

5.3.4. Ancillary Policies

The Notice (1998) also emphasized a series of auxiliary policies, to intensify housing reform and achieve its goals.

1. It applies different housing provision policies to different groups: social welfare low-rent housing for low income families; Economic and Practical Housing for purchase by middle income families; and commercial housing for purchase or rental through the market for high income families.

2. A continuation of public housing reform, including rent reforms and promotion of the

sale of public housing.

3. Development of housing finance: broadening the range of personal housing loans, perfecting the housing property rights registration system, developing housing loan insurance; developing a combination of Housing Accumulation Fund loans with commercial bank loans.

4. Accelerating the construction of Economic and Practical Housing through various supporting measures.

5. Vigorously fostering the real estate market.

5. 4 Significance of Monetisation

It is accepted that stopping in-kind housing provision and gradually magnetizing it is a revolutionary reform of China's housing system, with long-term significance.¹¹⁹

1. Its significance is well demonstrated in urban residents' housing consumption patterns. Urban residents no longer need to depend on enterprises and institutions for housing provision, in other words, they no longer need to "wait for, depend on, and ask for". The new motto is: "supporting oneself by ones own capability" in housing provision.

2. Reform in housing provision will inevitably bring a transformation in housing construction, and help the development of the housing industry. Urban residents will be the primary market for housing and developers will need to study the preferences of

¹¹⁹ Shang, Junfeng *Gaige de Kundian yu Xingfendian Guangdong: Zhuhai Chubanshe*, 1998, pp. 380-384; Hou, Shiyun and Shi, Zhanpeng *Zhongguo Fanggai yu Zhuzhai Jianshe Wenti Baogao—Hong Lou Wei Ji* Shenyang: Shenyang Chubanshe 1998, p142

purchasers and their purchasing power, to improve the design of residences, to raise the construction quality and reduce the cost of housing.

3. The monetisation of housing provision will lead to privately owned property determining the structure of property rights. This will greatly strengthen the housing industry, promoting rapid growth of the housing market and of related services.

4. As urban private residents become the primary investors in housing, this will affect the expansion of the housing finance market and lead to innovation in financing mechanisms.

5. Monetisation of housing provision improves the allocation system, and better promotes the principle of pay according to work performance, with priority given to efficiency. Those who have accomplished more at work are better paid, and will have a larger living space and better living conditions. This will be beneficial to the establishment of a vigorous economic system.

6. Monetisation of housing provision helps rationalise the consumption patterns of urban residents, and promote efficient investment and development.

7. Monetisation of housing provision can reduce the financial burden on state enterprises, and strengthen their market competitiveness, putting them on a level playing field with non-state enterprises. In some coastal provinces, the number of employees in non-state enterprises now accounts for over half of all employees. The dual-track pattern which grew up with, housing in kind for state enterprise employees and high salaries for non-state employees, encouraged couples to divide employment between the two sectors. This could leave state enterprises paying for all the housing

and giving a covert subsidy to non-state enterprises. Monetisation links the allowance to the individual, not the family.

8. Monetisation of housing provision is beneficial to the development of the labour market. The labour market is one of the most important segments of the economy, but has developed very slowly in China. One of the main hindrances has been housing provision in kind. As housing is difficult to segment, and is only allocated once, the effect is that employees who have already been allocated housing have had part of their wages prepaid, while others are in arrears. Monetisation resolves the problem of early or late payment, over or under payment of this part of the wages. Therefore, housing is no longer an obstacle to the development of labour market. Furthermore, monetisation helps rationalize pay levels.

9. Monetisation avoids pitfalls in the in-kind allocation system, reducing the corruption which causes so much bitterness, and harms social stability.

5. 5. Drawbacks of Monetisation

There is general agreement that with the development of a market-oriented economy, commercialisation of urban housing is an inexorable trend. However, monetisation does nothing to resolve old grievances and injustices. Those who have been favoured in housing allocation in the past, especially government officials and leaders in charge of state enterprises, can take advantage of monetisation to strengthen their hold over housing, turning decades of inequity, or even illegal occupation, into legal residence. Gu Haibing, a professor in the Renmin University of China, argued in an article that in

the near future, when there is still so much inequity in urban housing, there is no chance of giving people an equal starting point for the commercialisation of urban housing.¹²⁰

There are possible ways of giving state employees equity shares in the existing housing stock, including housing built over past decades, and providing an annual housing subsidy, based on length of service, which they can draw on to rent or buy property at the new higher market prices. Based on the 3.5 billion square meters of housing built in the past decades worth 5.22 billion yuan, if 3.3 billion yuan worth were allocated to a housing fund for state work unit staff, they should each receive an average of around 30,000 yuan in subsidy.

Proponents of the principle of: "new staff, new policy; old staff; old policy" are against measure which include a re-examination of the property rights to existing property. They argue that this is too complex, would cause social strife would deprive work units of their current rights over their property. Including property which has already been sold to occupiers and asking them retrospectively to pay more or receive rebates would be politically unacceptable. Legally this property belongs to the state, not the work units, so they would not be able to contest a state take-over. Over recent year Chinese have shown a high capacity to absorb massive changes, so arguments over social or political unacceptability may be overstated.

There are just two basic problems to be solved through housing reform: raising housing standards, and resolving historical inequity of provision. The former is an economic problem, while the latter is a political and social problem. Only when enough attention

¹²⁰Gu, Haibing "Dui tingzhi fuli fefang de jidian pinglun" (Comments on stopping welfare housing

is paid to equity to resolve historical problems, can the future economic goal of housing reform be easily achieved.

Secondly, it is argued that advocating that high-income families buy commercial housing, middle-income families buy Economic and Practical Housing and low-income families rent low-rent housing conflict with the fundamental goal of commercialization of urban housing. There is force in this argument: development of the market is the long-term answer.

5. 6 Influence of Monetised Housing on Macro-economy

The new housing reforms affect every part of the society. They will undoubtedly affect trends in the future real estate market and the macro-economy.

5. 6. 1 Monetisation and the Real Estate Market

There is no doubt that monetisation will promote housing consumption in the long run. The focus of monetised housing provision should be on raising personal housing consumption, though this may adversely affect the real estate market in the short run.

5. 6. 1. 1 Recent Real Estate Market Trends

The main problem of the real estate market lies in an excess of supply over demand but a structural inability to meet demand. For example, from the beginning to the end of 1999, the Guofang jingqi Index (the National Real Estate Index) was in decline (see

distribution) in *Keji Ribao (Science and Technology Daily)*, 29th March, 1998

Table 5-7).¹²¹

Table 5-7 Guofang Jingqi Index in 1999

Month	-	February	March	April	May	June
Index	-	104.88	104.39	103.89	103.28	102.21
Month	July	August	September	October	November	December
Index	101.65	101.29	100.92	100.17	101.11	101.46

Source: Guofang zhishu bangongshi "Dichan zhishu" in *Jinghua Fangdi (Jinghua Real Estate)*, Vol. 24, 1999, p. 20 and telephone interview to the above office (note: no index was released in Jan. 1999)

1. The total sum of supply and demand

In 1994, the area of vacant property across the country was 32,890,000 square meters; in 1995 it was 50,310,000 square meters; it was 66,240,000 in 1996; and in 1997 the area of vacant property reached 70,380,000 square meters. In 1998, a law was issued to prohibit in kind housing allocation, decisions were made to promote foster residential construction as a growth area and many measures were employed to fill vacant properties. As a result, in 1998, the total vacant commodity housing only increased by 12.4% in comparison with in 1997, to a total of 78,830,000 square meters, valued at over 140 billion RMB, though sales reached 114,400,000 square meters, an extraordinary increase of 38%. Statistics indicated that the percentage of vacant accommodation in China was far higher than international maximum levels. Stimulated

¹²¹ Guofang zhishu bangongshi "Dichan zhishu" in *Jinghua Fangdi (Jinghua Real Estate)*, Vol. 24, 1999, p. 20

by state financial policy, national annual investment in housing development surpassed 300 billion RMB in 1997. In 1998, it reached 357.96 billion RMB. Including work unit developments and private developments, the national construction total in 1998 amounted to 484 million square meters.¹²² The investment in housing in 1999 was 401 billion RMB and construction area reached 551 million sq. meters (see Table 6-1). Vacant property increased across the country, as it did in Beijing (see Table 5-8). Affected by the investment cycle, the vacancy rate was expected to keep increasing for the first year or two of the new century.

Table 5-8 Statistics for Housing Development in Beijing from Jan. to Oct. 1999

	Jan.-Oct., 1999	Jan.-Oct., 1998	Rate of Growth
Housing Investment (million yuan)	14980	10980	36.4%
Commodity Housing Constructed (million sq. meters)	1.5	1.8	-16.7%
Vacant space (million sq. meter)	3.271	1.678	94.9%

Source: Wang, Hailan "Beijingshi fangdichanye fazhan de jiyu yu kaifa gainian chuangxin", in *Jinghua Fangdi*, Vol. 24, 1999, p. 21

Seen from the demand angle, due to the prolonged in-kind housing provision under which residents received homes at less than the cost price, they tended to depend on their work units to solve their housing problems. This greatly reduced demand for commodity housing. Though distribution in kind had been ended, it took time to readjust the rents of low-cost public housing, change residents' attitudes, and put public

¹²² Cai, Jinshui, "Ruhe xiaohua kongzhifang" in *JingHua Fangdi (Jinghua Real Estate)*, Vol.16,

housing into the market. Secondly, the policy initiated forth in 1998 to stop in kind housing provision brought about a dramatic increase in institutional housing purchases in the first half of the year. But such advance purchasing resulted in a reduction in demand in the second half of the year and the following year. Thirdly, in the late 1990s, individual housing consumption was not high enough to support the real estate market. In 1997, the average residential property price in Beijing was 5411 RMB/m², though the authorities concerned tried whatever they could to reduce the price.¹²³ However, the city planning situation and land values made it impossible to lower greatly property prices, so it was difficult to achieve the goal of housing reform in a short time. To stop housing distribution in kind, it was necessary to increase money wages to the employees. Full compensation was deemed impossible, so the personal housing allowance was not enough to make up for the old housing purchase fund. This inevitably led to stagnation in the real estate market. Fourthly, housing reform stipulates that housing consumption be borne by individuals. This was bound cut out the excesses in demand which characterized institutional consumption under the former system. Homes had become larger and more luxurious. When the whole country's real estate market was suffering from stagnation, house prices still kept rising in Beijing: this was the institutional consumption effect. Once institutional consumption was banned, individuals had to take stock of their purchasing power. Fifthly, house prices were excessive and related fees were also too high, both of which greatly affected housing

1999, pp.28-30

¹²³ Wu, Yi, "1997 Nian quanguo fangdichan kaifa yu shichang fenxi yiji 1998 nian zhanwang" in *Beijing Fangdichan (Beijing Real Estate)*, Vol.2, 1998, p.29

demand. In the second half of the 1990s, taxes, different fees and profits for the developer took up at least half of the purchase price of property.¹²⁴ All these factors influenced housing demand.

2. The supply and demand structure

The supply and demand structure was not balanced. Housing price structure was not in balance with the income of most residents, leading to a lack of viable demand. The price range of Type Four and Grade Three (Silei sandang) commodity housing in the Beijing was 800 - 2500 RMB yuan/m² for the low price range, 2000 - 5000 RMB yuan/m² for the mid-price range, and 4000 - 10000 RMB yuan/m² for the high price range.¹²⁵ The average price was about 10 times the annual income of an urban family, far higher than the internationally accepted level of 3 to 6 times. This indicates that there were relatively too many properties in the middle and high price ranges. Unequal income distribution was also a factor: one-fifth of urban households accounted for nearly half the total income of urban residents.¹²⁶ Despite total savings of over 5,340 billion RMB, 90% of ordinary families had average per capita savings of only 1000 RMB.¹²⁷ For most residents, though they wanted to buy their homes, they just did not have the necessary purchasing power. Secondly, the variable, high borrowing rate,

¹²⁴ For more details, see Li, Xin Kang, Shaotiong and Huang, Weiwen etc., *Beijing Fangdichan Shuifei Zhinan*, Beijing: Yinshua Gongye Chubanshe, 1999; Zheng, Hua "Shangpin fangjia weihe nanjiang", in *Beijing Qingnian Bao*, 30th March 2000

¹²⁵ Wang, Xianqing and Wu, Shaoping *Huobi Fenfang* Beijing: Gaige Chubanshe 1998, p.242

¹²⁶ Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige-Mubiao Moshi yu Shishi Nandian*, Beijing: Minzhu yu Jianshe Chubanshe, p. 474

¹²⁷ Shanghai Nanyan Jiaoyu Guanli Gongsi *Zhongwai Jiaoyu Xinxu Jianbao* (Education Weekly), 2nd

coupled with an imperfect social security system brought too great a risk to those who borrowed money from the bank to buy homes. Though the Central Bank made successive reductions in deposit and borrowing rates, with the Housing Accumulation Fund following suite, the long-term loan interest rates were still as high as 7.65% and 5.67% respectively. For example in 1998, to buy a typical apartment at a price of RMB300,000, with a 70% 15 year combined loan, at a monthly re-payment rate of RMB1855, the actual total cost would be RMB403,900. The combination of unstable high interest rates, with concerns about future employment prospects, caused urban dwellers to think twice about investing in housing. This had a significant impact on new housing demand.¹²⁸ Finally, the housing market was not mature. The Grade 1 housing market was developing very fast, and the market was becoming stable, but the Grade 2 housing market was developing very slowly. Although there was great demand in the market for the Grade 2 housing, the government did not open this market in all areas. This reduced the variety of housing on offer, blocked housing development and reduced economic growth.

5. 6. 1. 2 Future Prospects

There is high latent demand for housing, and the real estate market has great potential. Urban dwellers in China had an average per capita living space of no more than 8.7 square meters in 1997, which was much less than that in Western countries, and even

March 1999

¹²⁸ Beijingshi Zhufang Zijin Guanli Zhongxin "Geren Zhufang Danbao Weituo Daikuan Jianjie" (unpublished) 1998; Jian, Hang "Shangye xing geren zhufang daikuan wenda", in Beijing Fangdichan,

Singapore and Hong Kong.¹²⁹ Moreover Chinese housing cannot compare with developed countries in facilities, quality and environment. There are still 4 million families in cities experiencing housing difficulties, and nearly 30 million square meters of unsafe dwellings badly needing reconstruction.¹³⁰ Now that residents' rising income means they are no longer worried about food and clothing, the priorities have become increasing living space, and improving living conditions. To achieve the goal of raising average per capita living space to 13 square meters by 2010, there should be an annual increase of 341 million square meters over the next ten years (see Table 5-9).

Table 5-9. Average per capita Living Space Targets

Year	average per capita living space (m ²)	Increased living space (million m ²)	annual increased living space(million m ²)
1978	3.6	—	—
1998	8.7	3151	315.1
2000	10	1081	360.3
2010	13	3354	335.4

Source: Feng, Ge and Li, Bo " Woguo hongguan jingji zhengce yu fangdichan shichang zoushi" in *Chengxiang Jianshe*, Vol.9, 1998, pp. 30-31

In terms of economic development, according to a survey by the World Bank, when the GNP per capita of a country is below US\$8000, there will be sustained development in housing investment. The per capita GNP of China is not more than 1,000 US dollars, so

Vol. 10, 1998, pp. 33

¹²⁹ Gu, Yunchang, "Zhuzhai Chanye yu Jingji Zhengzhang" in *Zhongguo Fangdichan*, Vol.8, 1998, p.4

¹³⁰ Wang, Xianqing *Zhufang Geming Guangdong Renmin Chubanshe* 1998, p.1

there is great scope for the development of the housing industry.¹³¹

In terms of urban development, China already has a large urban population, and is entering a phase of further rapid urbanization. In foreign countries, where the urban population accounts for 30% - 40% of the total, a fast increase in urbanization has normally occurred. China has an urban population rate of 29%, which approaches that of foreign countries. It was predicted that by the end of the "Ninth Five-Year Plan" (Jiuwu jihua) the urban population would increase by 10,750,000, with about 13,000,000 new married couples. This will make urgent demands on urban housing.¹³²

Many old urban areas need reconstruction, especially those areas which do not conform to the standards of modern city development. To build new residential areas is a top priority.

In terms of consumption structure, Chinese urban residents' demand for domestic electric appliances has already been satisfied. The focus of consumption is now gradually shifting to housing and cars. The growth of personal investment will facilitate the long-term development of the real estate industry. In China, personal savings are growing rapidly and will undoubtedly create great demand for housing investment.

2. Housing reform generated demand

The cessation of in-kind housing provision and the increase in money wages, along with the establishment of the Housing Accumulation Fund and compensation fund has increased spending power of employees, and thereby brought about an increase in valid

¹³¹ Gu, Yunchang, "Zhuzhai Chanye yu Jingji Zhengzhang" in *Zhongguo Fangdichan*, Vol.8, 1998, p. 5; Wang, Wei *Zhufang Zhidu Gaike* Beijing: Zhongguo Renmin Daxue Chubanshe, 1999, p. 244

¹³² Gu, Yunchang, "Zhuzhai Chanye yu Jingji Zhengzhang" in *Zhongguo Fangdichan*, Vol.8, 1998, p.5

demand.

Completely opening up the Grade 2 market, encouraging the owners to buy and sell houses, and increasing housing investment to improve housing conditions has made it possible for owners to realise assets held in former public housing. It also increased the people's purchasing power, and thus brought about a growth in real demand.

Gu Yunchang, in "Housing Industry and Economic Growth" (*Zhongguo Fangdichan*, Vol. 8, 1998), offers an estimate of urban housing demand as a result of the above three factors (see Table 5-10):

Table 5-10 Estimate of urban housing demand (unit: ten thousand m²)

Factors contributing to the increase in demand	New ways of promote new housing	opening of GradeII housing market	Institutional purchases	Total
Scale of increase in demand	136~2244	2212~3456	680~850	4238~6550
Average increase in demand	1760	2800	760	5320

3. Feasibility of accelerating housing construction

The economic growth provided the prerequisite condition for speeding up residential construction. Residential construction is compatible with economic growth. The level, rate and scale of growth in the national economy, directly affect the development of the real estate industry. China has maintained an economic growth of about 10% for a decade. This provides the necessary conditions for growth in residential construction.

On the supply side, construction materials, such as construction steel, cement, and glass

are in oversupply, with large stocks. At the same time, government departments are making a joint effort to speed up the modernization of residential construction. They are working on production efficiency, quality control, design, standardisation of components and other measures aimed at raising productivity levels.

5. 6. 2 Effects of Monetisation on Economic Growth

The acceleration of housing reform and monetisation of provision has had a substantial effect on raising supply and demand. The housing industry is fundamental to the national economy, and is gradually becoming the mainstay of the development of the economy. In the long run, sustained development of the housing industry is certain to make a steady contribution to the national economy.

1. Property based assets are the basis for national economic development. They help raising people's consumption levels and quality of life. For instance, in 1985 in the USA, 27% of gross assets were real estate.¹³³ The support of rich real estate asset base is vital for strong national economic growth.

2. There is high synergy between the housing industry and other related industries. The housing industry involves construction materials, transportation, energy resources, metallurgy, the chemical industry, electronics, communications, and machinery; there are altogether more than 2000 types in more than 50 industries. Increased demand for housing gives direct impetus to demand in other related industries.

3. In all developed economies the housing industry's contribution to economic growth

¹³³ Wang, Wei *Zhufang Zhidu Gaige* Beijing: Zhongguo Renmin Daxue Chubanshe 1999, p.1

has become the backbone of national economy. In terms of real estate as a percentage of GDP, in Japan it was 10.4% in 1998, in Hong Kong it was 20.6% in 1990, in Taiwan it was 10% and in the United States it was 10-15% in 1993. China lags behind. It was expected to reach 5% in 2010, and 10% or in 2020 when it is expected to become a key industry. In the next twenty years of economic growth in China, the development of the housing industry will make a great contribution.¹³⁴

5. 6. 3 Monetisation and Inflation

Real estate investment demands heavy injections of cash, and is very likely to stimulate inflation. However, it also boosts future total supply, and in this respect may keep down inflation. Hence real estate has a two-sided effect, both positive and negative, on inflation. For real estate investment to have a restraining effect on inflation, the prerequisite is that the commodity housing, which is constructed, must conform to the demands of the housing market.

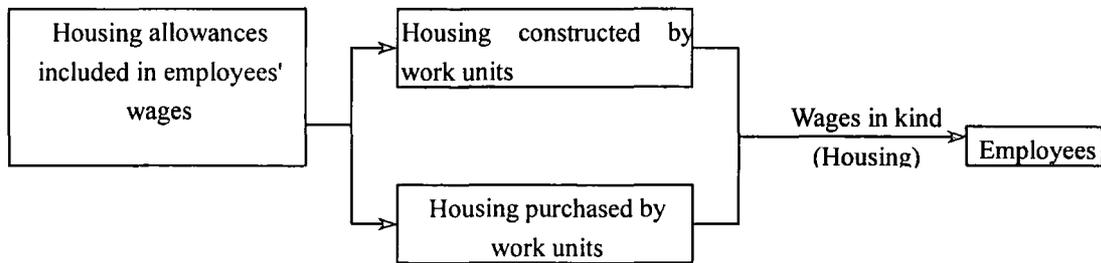
5. 6. 3. 1 Monetisation and Funding

The implementation of monetisation requires the addition of a housing allowance to the wages of employees. But in most work units, housing allowances replace investment in new construction by the work unit. In other words, this is a transfer, not an additional sum and will not of itself increase demand. With provision monetised, the operation of

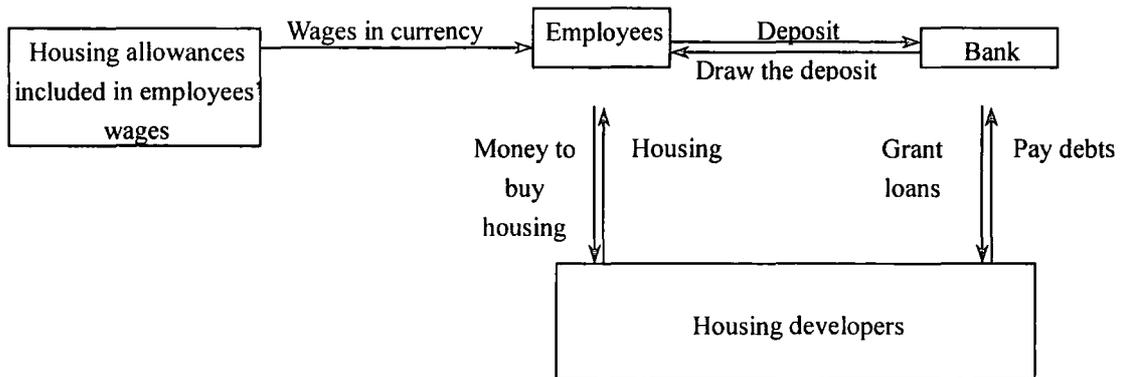
¹³⁴ Gu, Yunchang “Zhuzhai Chanye yu Jingji Zhengzhang” in *Zhongguo Fangdichan*, vol. 8, 1998, pp.4-10

residential construction funds is completely changed. The work units are freed from housing provision. The funds operate in accordance with market forces, increasing both fairness and efficiency.

The old channel for funds was:



Now it is:



It can be seen that monetisation only changes the channel for funds, without changing the macro supply. This may mean there is no change in total funding supply brought about by monetisation.

From this, it can be concluded that monetisation itself will not affect the supply and

demand of funds, and hence will not stimulate inflation. In recent years, China's economic growth has slowed down and China has experienced deflation. State macro supervision is therefore geared to stimulating economic growth, and so investment has been raised, especially in residential construction. The adoption of this method is in line with the goal of developing the national economy through increasing domestic demand. It also has the effect of satisfying employees' actual housing demand in the post-monetisation era. The state will go on increasing housing investment in the coming years, and the increased funding supply will stimulate prices increases in the short term. This is the result of China's macro-control, and not inflation caused by monetisation.

5. 6. 3. 2 Effect of Monetisation on Aggregate Supply and Demand

In the application of monetisation, the additional money wages are coordinated with raising rents and the cessation of in-kind provision in order to achieve the goal of directing funds into specific purposes. It will not have any impact on the consumption of other commodities or the aggregate demand for other commodities. But, with the implementation of monetisation, people now have the right and the opportunity to choose their own homes. People's residential preferences and desire for a better quality of life has become the decisive factor in housing demand, and is sure to bring about change in its structure.

As far as supply is concerned, only housing that accords with what people want will realise its value in the market. Housing that does not accord with people's needs will be ignored. Recently a considerable amount of inexpensive suburban commodity housing

has appeared on the market. This housing is well designed and enjoys convenient transportation links to the city, and as such, is highly regarded by consumers. Thus, following the implementation of monetisation, housing supply has increased as property developers gradually learn to satisfy the demands of consumers. This increase in supply should hold back inflation.

In the short term, monetisation of housing supply will not have a great impact on funding demands or supplies, and so cannot be considered inflationary. A price rise would be most likely attributable to macro-control. In the long run, the housing supply structure will adjust to meet the changing needs of the housing demand structure, so price rises should be restrained. In this way, monetisation can bring about a rise in peoples' living standards, a change in housing supply, and improvement in enterprise profits and steady growth in the national economy.

Chapter 6 Conclusion

Through this analysis of China's housing system reforms in the 1990s, it can be concluded that, overall, housing reform in the 90s was highly successful. This was especially true when, towards the end of the 90s, a breakthrough was made with monetisation of housing supply as the core of the reforms (see Table 4-1 and Table 4-2). During the eight years from 1991-1998, national investment in urban housing construction reached 1,910 billion yuan and 2.092 billion sq. meters of housing were constructed.¹³⁵ Statistics show that families whose average per capita living space is above 8 square meters accounted for 13.5% of all the families in 1981, 48.1% in 1988, and 76.8% in 1998, displaying a substantial increase. This shows the benefit housing reform brought an improvement in people's living conditions. By the end of 1998, 68.3% of Chinese families had moved into their apartments.¹³⁶

Table 6-1 Area of Housing Occupied by Urban Families in 1998

Floor space of housing (sq. meter)	<30	31~40	41~50	51~60	61~80	>80
Family proportion	17%	17%	21%	20%	17%	8%

Source: Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige-Mubiao Moshi yu Shishi Nandian*, 1999, p.292

¹³⁵ Dai ,Gongxing "Woguo zhuzhai chanye fazhan de xianzhuang, mianlin de wenti ji xiangying de duice" in *Jinghua Fandi*, Vol. 17, 1999, p. 17

¹³⁶ Guojia Tongjiju, "Cong shuzi kan bianhua", *Beijing Chenbao*, 16th September 1999

Table 6-2 Chinese Urban Housing Construction and Living Conditions

Year	Investment (million yuan)	Constructing space (million sq. meter)	Living space per capita (sq. meter)
1978	3754	38	3.6
1990	29704	173	6.7
1991	52333	193	6.9
1992	75077	240	7.1
1993	175223	307	7.5
1994	248780	357	7.8
1995	299372	375	8.1
1996	298723	394	8.5
1997	297711	405	8.8
1998	357960	484	9.0
1999	401017	551	9.6

Source: Cheng, Siwei *Zhongguo Chengzhen Zhufang Zhidu Gaige-Mubiao Moshi yu Shishi Nandian*, 1999, p.164-165; Chen, Hui "Renmin shenghuo zhubu gaishan", in *Beijing Qingnianbao*, 27th March, 2000

But at the same time, the housing reforms in the 90s also exhibited many problems and loopholes.

First, the reforms lasted for ten years at a disappointing pace, starting slowly with the four main housing reform measures in the first half of the 90s and then rapidly speeding up towards the end of the 90s with monetised housing provision as the key measure. Looking back, it would have been possible to implement monetisation from the first

phase in the early 1990s. This would have reduced the difficulty and cost of the housing reforms.

The main causes of the slow progress were man-made. Housing reform was in reality a re-distribution and readjustment of benefits. The decision makers and executors of the housing reform policy were mostly people who had already benefited. Reform to them meant losing some of their accrued benefits.¹³⁷ It is easy to imagine why there was resistance to housing system reforms.

A further aspect of reform in the 90s was a failure to develop the market.¹³⁸ The goals of reform were efficiency and equity. Generally speaking, efficiency mainly results from the market. Therefore, the main task of the government is to develop the market, and this is achieved by economic means. During the decades from 1949, when the Communist Party of China first gained power, to 1978, when housing reform was initiated, the government tried its best to solve the housing problem and to raise the quality of housing by administrative means. This failed. Although housing reforms achieved a great deal in the 90s, this was only in the public housing sector. As far as development of the market was concerned, the 90s did not see much improvement, although this was a more important way to promote the commercialisation of housing. The two big problems of high house prices and an excess of vacant commercial housing are closely related to the failure to develop the market. To make residential construction

¹³⁷ Wang, Xiaoguang Gao, Guoli and Fan, *Caiyao Zhufang Tizhi Gaige Guangdong*: Guangdong Jingji Chubanshe, 1999, p. 152

¹³⁸ Ren, Zhiqiang “Fangdichan Kaifa zhong de Lilun he Zhengce” in Kan, Jun eds. *Toushi yu Fenxi* Beijing: Zhongguo Renshi Chubanshe 1998, pp.112-115 ; Ren, Zhiqiang “Fanggai dui Shichang Jingji de Yingxiang” and “Fanggai Zhengce he Shichang Jingji de Guanxi” in Kan, Jun eds. *Toushi yu Fenxi*

a new economic growth point and a focus of consumption, the government has to resort to the development of the market, without which there will be no efficiency. It is impossible to achieve commercialisation of residential property just through a few administrative sale-promotion measures. In fact, the Chinese government has all along been using a three-pronged approach of part market regulation, part administrative guidance, and part a combination of government and individual initiatives. However, there has been too much reliance on administrative guidance and too little on economic methods. This policy may be useful as a means of making the transition to a market-based system, but it is ultimately harmful to the development of the market and should not be maintained for long, otherwise it will affect the attainment of the housing reform objectives.

Housing system reform in China has achieved a great deal in a short time. The future prospects are bright, but a lot of effort has still to be made. To end the paper, it is most appropriate to quote the words of the late Sun Zhongshan, the first president of the Republic of China: "comrades, you have to make further effort."

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