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Evaluation of China’s Urban Housing Reform

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Abstract: China began its urban housing system reform in 1980. This paper will explore whether the reform has fulfilled the scheduled goals. In terms of urban housing availability, living space per capita is now more than double what it was before the reform, and living conditions have been improved. But, in terms of establishing a new urban housing system based on a market oriented economy, the reform has not completed its scheduled aims. First, the proportion of the housing investment by central or local governments and work units amounts to 80 percent of the total of urban housing investment. Second, due to dual-track housing prices, two housing markets exist: an 'internal housing market' and an 'open housing market'. The former still follows the old welfare system. The latter is limited to a very narrow range. Third, rent reform has not stimulated individual investment in housing and the rent for public housing still is subsidised by the government and by *danwei's.* The experience of China's housing reform has shown that the reform has not fundamentally changed the old housing system. Although the reform has made some gains, the results still fall short of the targets.

1. Introduction:

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

How did the reform proceed? What was the impact of the reform? Has the reform achieved its goals? The focus of this paper is the evolution of housing reform policies and their economic results. We can analyse the housing reform after 1979 in terms of the transformation of three mechanisms, and we can divide the process into four phases. The first transformation is the shift from the system of centrally controlled urban housing, including investment and distribution towards multiple channels of investment. The second is the selling of new housing as consumption goods on the open housing market, and of old housing as subsidised goods on an internal housing market in the workunit. The goal is to increase the privately-owned proportion of the total housing stock and to collect capital for housing construction. The third mechanism is raising the welfare rents gradually to the level of commercial rent. The goal is to change the indirect subsidy into a direct subsidy and to encourage tenants to make a greater contribution to housing themselves. All of these three transformations are intended to realise the commercialisation of urban housing, as well as the improvement of urban housing standards.

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

Some Chinese observers have raised objections to the current economic policies for housing reform, arguing that the policies are premature and can’t achieve their goals (Lü Fuxin 1993 and Institute of Finance and Trade Economics of the Chinese Academy of Social Sciences and Institute of Public Administration, hereafter IFTE and IPA, 1996). This paper will discuss whether the adjustments of the economic mechanisms for housing reform to date have been successful, in what ways the experiments in selected cities influenced the housing

system reform in other cities, and how the housing system reform is working throughout China.

2. The formation of the basic approach to urban housing reform

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

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

First, urban housing for residence should be treated as a commodity which can be sold to and owned by urban residents, rather than a welfare or public good provided by the government or society. Second, the rent level under the low rent system should be raised to the market level in order to encourage people to prefer to buy rather than to rent housing. Third, investment in urban housing could come through multiple channels and the approach towards construction methods should be flexible. This means that the burden of accommodating urban residents should be shared between individuals and the government (Office of Leading Group of Housing System Reform Under State Council 1991, p. 1; *Fanggai qishi lu* cited in Chen Shuping 1993, p. 3; Wang Yukun and Yang Lu 1992. p. 5; Yun Zhiping and Bai Yihong 1990, p. 31; and Kan Tianjin and Wang Meixian, 1988. p. 2).

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

3. Investment system reform - decentralisation of housing investment allocation

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

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

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

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

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

Due to the shortage of government funds and the inability to make large-scale housing investment, the central government reformed the system for the allocation of capital investment.

Various workunits were given autonomy in housing investment and development through self-accumulation and self-raised funds. At that time, decentralisation was a crucial step in the reform of the allocation of resources by the planned economy system.

In order to create increased revenue for expenditure on new urban construction, in 1978 the document, *On Strengthening Urban Construction Work,* was issued jointly by the CCP Central Committee and the State Council. It required a large-scale house building programme

involving the central government, local government and individual institutions enterprises. It aimed to build more housing and reduce housing pressures due to the estimated 1 billion square metre shortage of urban housing at that time. In this conference, the government reformed the local government finance system. In that year, Shenyang and Guangzhou were permitted to use 5 percent of all net income (total income after the deduction of expenditures) for urban maintenance and the development of public facilities. This special policy was extended to over 50 cities from 1979, including all provincial capitals, cities with a population of over half a million and six historical cities (State Council, 1978 cited in Wang Yaping 1995 p. 73). In addition, the government formulated new tax regulations in 1984, including taxes on housing, urban maintenance and construction in favour of housing investment. During the Sixth Five-Year Plan (1981-1985), housing investment exceeded 20 percent of capital construction investment (Pola, 1992, p. 15).

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

Two indices can be used to explain the rapid increase of housing investment: the proportion of housing investment in Gross National Product (GNP) and the proportion of investment in urban housing compared with capital construction investment.

The rapid increase in housing investment as a percentage of GNP reflected the over all acceleration in economic growth. According to the international experiences for annual national economic output, housing investment ranges from 2.5 to 7 percent of annual output, that is to say 15 to 30 percent of annual investment (Renaud 1991, p.17). However, after the reform China's investment in urban housing was higher than these ranges (see Table 1). The World Bank experts concluded that:

> The impact of this decentralisation was swift in coming, and resulted in an unprecedented level of resources being allocated to housing construction. During the last decade, up to 8 percent of GNP and 30 percent of Gross Capital Formation was devoted to housing (with approximately 45 percent

generated in urban areas). China's municipal and town governments encouraged the production of about 150 million square metres each year (or roughly 3 million units annually) by implementing a streamlined planning-approval process managed exclusively at the local level. As a result, the amount of average space available per capita in cities almost doubled between 1978 and 1990 (1992, Executive summary p.4). This level of production is also unprecedented by international standards (1992, p.3).

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

Time Period	Percentage of GNP	Year	Percentage of GNP	Year	Percentage of GNP
1953-1959	1.33	1979	4.32	1987	9.36
1958-1962	0.90	1980	5.95	1988	9.09
1963-1965	0.82	1981	7.95	1989	8.07
1966-1970	0.49	1982	8.39	1990	8.07
1971-1975	0.89	1983	8.79	1991	7.17
1976-1978	0.87	1984	8.24	1992	8.00
average prior to 1978	1.50	1985	9.14	1993	8.49
		1986	9.28	1994	7.82

Source: *China Statistical Year Book* 1988, 1992, 1994, 1995, China Statistical Publishing House, Beijing cited in IFTE and IPA (1996), p. 82.

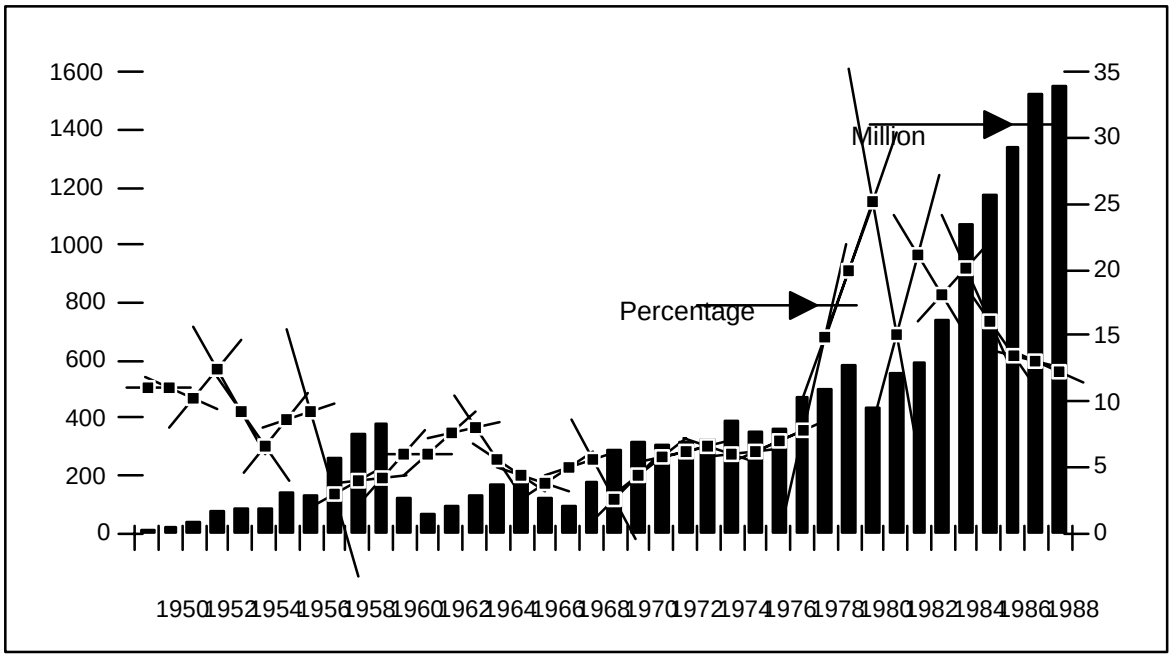
From the index of the proportion of investment in urban housing to capital construction investment, we can see that the Chinese government changed its policies towards national investment allocation. For example, in 1979 housing investment made up 14.8 percent of total basic construction investment,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

Although the multiple channels of housing investment expanded the urban housing stock, in the long run, the capital was insufficient to meet the demand for urban housing. Under the traditional housing system, the more the central and local governments and workunits invested in urban housing construction, the more subsidies for housing they provided. This is because individuals did not make any contribution to improving their living standards. It led policy-makers to think about other options to obtain finance in order to overcome housing shortages.

4 . Sale of urban public housing - establishing an urban housing market

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

Figure 1 Proportion of investment in urban housing to capital construction investment 1950 - 1989



Source: Chinese Statistical Yearbook 1990, p. 325.

The main reason for the commercialisation of urban housing at that time was that the government expected to increase its capital construction funds, decrease its housing subsidies, and stimulate China's building industry. In the early 1980s, the government proposed that urban workers and employees should be able to build private housing and buy their own houses. Thereafter, the government repeatedly encouraged workunits *(danwei)* to construct new housing units for their workers and asked them to sell to individuals. Although only a handful of the urban residents could even think about purchasing private housing in urban areas, the state was willing to share some of the total housing cost with the *danwei* (Kim 1990, p. 112).

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

In April 1980, the central government announced that in Nanning, Xi'an, Fuzhou, amd Wuxi, schemes for the sale of public housing would be initiated. Both outright purchase and instalment plan methods (15 years, at 1-2 percent interest) would be utilised (Kirkby 1988, p. 239). The government also encouraged housing sale by establishing housing development corporations for better plan co-ordination and cost recovery reasons. The first urban housing construction and development corporation was established in Beijing in 1980. Thereafter numbers grew rapidly and by the end of 1986. All of these corporations sold new housing according to the housing market value, although only a minority of urban households were able to afford it.

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

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

As a result, a programme of three-way partnership (*san san zhi*) was developed: when purchasing, an individual was required to make a down-payment of one-third of the housing cost, while the *danwei* and the local government equally financed the remainder. The

government clearly regarded this type of private partnership as a much-needed beginning to alleviate the urban housing shortages (Kim 1990, p. 112).

In practice, this scheme distorted the nature of urban housing commercialisation and it caused a new problem: what the local government and enterprises had to do in this reform was to provide about 70 percent of the housing cost for the buyers without any return. Actually, it was impossible to realise the central government's target which was to absorb more private savings into investment in urban housing construction, because the more public housing was sold, the more subsidies had to be paid for it. Therefore, the large subsidies in selling public housing became a heavy burden on local government and enterprise budgets. As a result, the public housing sold barely made any progress in meeting the huge housing demand which had accumulated over 3 decades. Obviously, it was a shorted-sighted policy for the urban system reform.

What happened in the trial cities? Based on this shorted-sighted policy, public housing was offered to buyers at a "standard price", which was first set at 50 percent of total construction cost, and then the government, workunits and individuals would pay part of this price. The standard price was set at 300 yuan per square metre at that time. In practice, the average sale price over the country was around 20 yuan a square metre (IFTE and IPA 1996, p. 87). In the four cities, during the first two years, 2,140 new housing units (114,500 square metres) were sold off and only 30 percent of the 16.4 million yuan investment was recouped. In 1984, the programme spread to about 110 cities and 200 towns, with an additional 50 cities and 100 counties participating in 1985.

During the period of the implementation of these schemes, the unequal distribution of urban housing appeared. This programme clearly contained the seeds of class division. In Shanghai, for example, the first batch of 2 hundred apartments was put on sale at the beginning of 1985 by the Zhonghua House Construction and Sales Company; a further 4 thousand were under construction. However, each time when selling housing, the apartments were offered to Party members and municipal employees in the first round, then to medium and small enterprises in Shanghai. The other problem was that the scheme did not solve the capital need for building more urban housing, and it reinforced the welfare system of urban housing consumption (Badcock 1986, p. 166).

As the result, the program became the object of increasing criticism nation-wide, because its success depended on unequal household access to a form of in-kind wage, forcing the least-favoured to absorb the financial burden of home ownership. In 1986, the State Council withdrew its approval of the "preferential" pricing of public housing, under pressure from the criticism of its financial unsustainability and the unequal household access to the home

ownership scheme (IFTE and IPA 1996, p. 87, The World Bank Country Study 1992, p. 26 and Wang Yukun and Yang Lu 1992, p.6). This experiment demonstrated that the three-way partnership (*san san zhi*) was not a feasible programme for financing urban housing investment or for changing China's urban housing system from a welfare system to a market-oriented system.

5. Low rent system reform - experiments in some cities from 1986

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

5.1. Housing subsidy increase - a big burden on the government budget

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

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

Some scholars have studied the subsidies based on a rational structure of urban housing rent estimated on the basis of opportunity costs. The most comprehensive study made to date defines total compensation to include the cash salary, and the welfare benefit of various kinds including health care, price subsidies, and housing subsidies. “Rational” housing rents are assumed to average 3.16 yuan per square metre of rental space and are derived, in turn, from assuming average housing asset values of 241 yuan per square metres of constructed space

(Wang Yukun 1990, and Zhang Ronggang and Huang Zhijun 1994, p. 281). According to this method for estimating the urban housing subsidies by the budget expenditure, The World Bank Country Study says:

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

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

	Living space					Subsidy		
	per capita	per worker	Rational rent	Current rent	Housing subsidy	per worker	Total workers	Total subsidies
	(square metre)		(yuan / square metre)			(yuan)	(thousand)	(Million)
1978	4.20	6.36	0.78	0.13	0.65	49.46	94,900	4,715
1979	-	-	0.90	0.13	0.77	-	99,970	-
1980	-	-	1.03	0.13	0.90	-	104,440	-
1981	5.27	6.99	1.19	0.13	1.06	88.60	109,400	9,701
1982	5.16	7.28	1.36	0.13	1.23	107.01	112,810	12,162
1983	5.90	7.57	1.57	0.13	1.44	130.69	115,150	15.044
1984	6.32	8.11	1.04	0.13	1.67	162.84	118,900	19.362
1985	7.46	10.13	2.08	0.13	1.95	236.34	123,500	29,207
1986	8.04	10.85	2.39	0.13	2.26	293.78	128,090	37,579
1987	8.47	11.37	2.74	0.13	2.61	356.60	132,140	47,132
1988	8.80	11.81	3.16	0.13	3.03	428.93	136,080	58,368

Note: Living space per capita is from State Statistical Bureau, *China Statistical Yearbook*, Beijing (1986-1989), and for 1978-84, it based on a worker household survey in cities.
Source: Wang Yukun, 'The size of housing subsidies in China' cited in the Work Bank Report 1992 p. 39.

According to the above discussion, the more housing that was built and the more the living space per capita increased, the more subsidy the government or workunits had to provide. Therefore, this built-in subsidy increased with more housing construction and created a heavy financial burden on the government and enterprises so that they could not continue to follow this system.

5.2. Solving the urban housing problem - the impact of the first national survey of the urban resident living situation

After the decentralisation of investment in urban housing construction had been carried out for several years, the proportion of investment in urban housing to capital construction investment had increased, and urban living space per capita had improved from 3.7 square metres in 1978 to 5.2 square metres in 1985. However, serious urban housing problems still existed. There were still households without a permanent home, or with inconvenient living conditions and overcrowding. These problems were confirmed by a national housing survey conducted by the Ministry of Urban and Rural Construction and Environmental Protection and the State Statistical Bureau between July 1985 and July 1986, (Zhu Yi, 1987).

The survey covered 323 cities, 1971 counties and 5273 towns, with 150 million urban residents and 40 million households (Zhu Yi 1987, p. 14) and (Beijing Review, 11 May, 1987). The survey showed that workunit-owned urban housing accounted for 75 percent and state-owned under the jurisdiction of local housing bureaus accounted for 9 percent, ie. public housing accounted for 84 percent. Private-owned housing accounted for 16 percent in urban areas. In 1986, the average household size was 3.8 persons, the living space was 24 square metres and the average living space per capita was 6.38 square metres.

The survey also revealed that although there were marked improvements in many aspects of urban housing, the shortage of decent housing was still acute and the overall living environment remained poor. Among the 40 million households surveyed, 10.54 million households had housing problems, which made up 26.5 percent of total households surveyed, and included households without housing, three generations living in one room, two couples living in one room, households under 2 square metres per capita and overcrowded living conditions. Only about 24 percent of urban housing had flush toilets, kitchens and other basic utilities.

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

Table 3 Housing situation of national urban residents 1985-1986

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

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

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

5.3. Achieving a moderate level (*Xiaokang Shuiping*) in housing by the year 2000

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

to five individuals will have dwelling units containing 16 to 40 square metres of living space, with a self-contained kitchen, toilet, closets, balcony/foyer, and utility space for cooking gas and heating. This goal will be increased to 6 square metres thereby reducing overcrowding. From 1990 to 2000 the average space will be increased to 8 square metres. It is intended that these goals will be achieved partly through new construction and partly through the renovation of existing but obsolete residences (McQuillan 1985, p. 13).

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

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

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

In 1986, the Leading Group[1] for Housing Reform set the basic goals for housing reform as "raising rents, increasing wages and encouraging employees to buy houses" *(Tizu, Zengzi, Guli shoufang*) and chose Yantai (Shandong), Bengpu (Anhui), Tangshan (Hebei) and Shenyang (Liaoning) for the first formal trials (see Figure 5-3). This aimed to change the welfare system for urban housing consumption to a market-oriented distribution system. "The great significance of these experiments lay in their direct attack on the low rents, the main defect of the old housing system" (IFTE and IPA 1996, p. 88)

In these trial schemes the rent level was calculated on the following basis: depreciation fee, maintenance fee, management fee, interest from investment, and property tax (the so-called 'five element housing cost'). This effectively raised rent about ten times. Compensation was offered to ordinary tenants in the form of subsidies provided according to local levels of rent and wages. After this reform, rents usually made up about 20-25 percent of the basic wage of workers and staff members (Gao Peiyi 1993, p. 21)

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

The Yantai model embodied the typical features of the reform target. The scheme was carried out all over Yantai urban area and involved increasing rent and issuing rent coupons. Rent was increased from 0.13 to 1.28 yuan per square metre, which was close to the housing cost price. Enterprises issued coupons that represented a housing allowance equivalent to 23.5 percent of one's wages. The coupons could be used to pay the increased rent or to buy public housing. This approach was expected to reform the low rent system quickly, to foster the desire to purchase housing, and to ease the demand on public housing. After raising the rent, 6000 households changed their housing from a bigger to a smaller size and one thousand households returned their surplus public houses to their enterprises or the local government in order reduce the rent expenditure (Office of Leading Group for Housing Reform under State Council 1991, p. 44). However, this approach does not promote a quick return on capital (Uhalley 1990, p. 322).

In Shenyang, the rent reform focused on large enterprises because most public housing was owned by workunits. The scheme expected the reform to be led by large enterprises and then carried out elsewhere by stages and in groups. The new rent in Shenyang was 1.42 yuan per square metre, so the ratio of the housing allowance was not more than 24 percent of the basic wage of the workers. This approach had the advantage of not disturbing too many enterprises at once, and those that implemented the reform could quickly achieve a healthy circulation of housing funds (Ming Pao [Hong Kong] 7 March 1988 cited in Uhalley 1990). However, it was very difficult for these large enterprises to carry out the scheme because they must gain more profits by their production to accommodate the housing allowance in this reform.

5.6. Further trials of the housing system reform across the country

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

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

In 1988, eighty cities began their housing reforms. Thereafter, there were 381 cities and more than ten thousand towns involved in the urban housing reform. Beijing, Tianjin and Shanghai, the three biggest cities under the jurisdiction of the central government, began the trial in several districts, large enterprises or large institutions.

As designed in the document, the compensation for increased rent would come mainly from two channels: one was the households' income, which meant households would contribute a larger proportion of their income to housing, with no change of other conditions; the other was the upward wage adjustment, which meant the arbitrarily depressed low wages, as the underlying cause for low rent, were to be corrected gradually with the adjustment of the national income distribution (IFTE and IPA 1996, p. 88). However, governments could not increase rents because this would require a wage increase which they could not afford. Therefore, the low capacity of households to pay any significant rent increase was the main barrier to implementing the trials of rent reform across the country.

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

5.6. Turning point: housing system reform in the whole country

With the deepening understanding of China's economic reforms and after more than ten years of experiments and trials with the urban housing system reform, and especially after the experience of runaway inflation and market collapse in 1989 to 90, the central government had to rethink the direction of the reforms. The turning point came in 1991. China chose

market-oriented reform as the direction for the urban housing system instead of focussing on relieving governments and enterprises of the economic burden of urban housing investment.

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

a) The principle that government, collectives (workunits) and individuals share the burden of urban housing construction. Under the precondition of maintaining the present funding channels of the housing construction, the proportion for individual contributions to housing construction investment should be increased;

b) The principle of linking rent, sale and construction, aiming at setting up a combined process of increasing rent, stimulating house sales, recouping investment and developing a healthy circulation of funds in urban housing construction;

c) The principle of adopting measures suitable to local circumstances and making separate decisions under the unified policy, it being impossible to make clear cut standardised procedures, methods and measures in the reform; and

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

Under these principles, the national targets for urban housing reform were scheduled into three different stages:

a) The target during the Eighth Five Year-Plan (1991-95): reforming the low rent system and making rents cover the three main costs (repair costs, administration costs and depreciation costs), and increasing, step by step, the proportion of household outlays on housing; solving the problems of dangerous housing and households in difficulty who have less than 3-4 square metres of living space per capita, as well as the problems of those who are homeless; increasing the average per capita living space to 7.5 square metres and increasing the ratio of

'self-contained units' (*chengtao lü*) of housing to around fifty percent; making sure that in those cities which have completely undertaken housing reform, the state, the workunit and the individual all contribute to housing funds and guarantee fixed and standardised housing construction funds; and establishing the foundation for introduction of a market system.

b) The Ten-Year Plan 1996-2000: by the year 2000, housing rent will be of a sufficient level to cover the five basic costs (repairs, administration, depreciation, investment interest and real estate tax), and will thereby rationalise the basis for household housing consumption. There will be an increase in the ratio of 'self-contained units' of housing to 60-70 percent of the whole and an increase in the average per capita living space to 8 square metres, as well as a clear improvement in housing condition and neighbourhood environments. Real estate markets and a feasible finance system for housing investment will be created in order to increase the speed of capital flow and to realise gradually a healthly circulation of the housing construction funds.

c) The long term target: this includes the realisation of a housing rental standard which will cover the eight costs (the former five basic costs plus land use fees, insurance fees and profit) and an even more rationalised household housing fee and commercial rent level; a greatly increased ratio of 'self-contained units' of housing so that each household has a comfortable dwelling; the formation of a real estate market and housing finance system; and completion of the commercialisation and privatisation of housing (Leading Group of Urban Housing Reform State Council 1991 cited in Wang Guoting and Song Changjun 1992, p. 223).

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

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

The Shanghai Scheme

The main aims of the Shanghai scheme can be summarised as follows: establishing a local provident fund (accumulation fund); raising rents with the provision of subsidies; and the provision of the housing on the condition of purchasing low interest housing bonds (The Office of Leading Group of Housing System Reform Under the Jurisdiction of State Council 1992, pp. 3-11 and Chen Shuping 1993 p. 9).

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

In the Shanghai scheme, there are two approaches to reforming the old rent system. Firstly, the rent is raised to such a level that tenant payments can cover routine maintenance expenditures, and this means that payments have risen from an average 0.27 to 0.45 yuan per square metre monthly. Secondly, all newly allocated rental housing will be subject to household purchase of a five-year bond carrying a nominal interest payment. These bonds are calculated on a per square metre of rented-space basis and vary according to housing quality (seven grades) and location (five grades). For example, 65 yuan per square metre of newly-allocated housing of the highest quality in downtown Shanghai, 50 yuan per square metre in suburban areas, and 35 yuan at Shanghai's periphery. Although the approach of a five-year housing bond has been an improvement over existing practices, it has had a limited impact. A World Bank report commented: "Since the housing bonds are redeemable within five years, their impact on household rental expenditures is limited, when compared to the policy of redemption only on vacating the premises" (1992, p.31).

The Beijing Scheme

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

Rent reform, without any offsetting wage adjustments: This would proceed very slowly. Over the next three to five years, rents would increase from 5-6 yuan per month, for a standard two-room apartment, to 25 yuan per month, or enough to cover routine maintenance and management expenses. Then, only after an additional ten years, rents would rise to the equivalent of 10 percent of present income, a level which corresponds to 40-50 yuan per month.

This scheme had been fully trialed in selected units or districts since 1988, before it was implemented in the whole Beijing urban area in January 1 1992. Rent was planned to rise to 0.275 yuan per square metre. During the next year, 1993, it would rise to 0.41 yuan per square metre and in 1994, it would continue rising to 0.55 yuan per square metre. The rent increase without raising employees' wages was based on a large-scale investigation of the previous and existing housing expenditure in the city. In the early 1950s, rents were 5 percent of average wages, and had gradually fallen to about 1 percent in the later 1980s. Therefore, no subsidies would be provided for the rent increase until the level of rents amounted to 4-6 percent of the average wage.[2] By coincidence, the cited experimental cities of Yantai and Bengbu have achieved this rent increase without raising wages. This standard, because it is linked to an arbitrary cap on wage adjustments, bears little relationship to the full cost recovery considerations implied by the asset value of newly-constructed housing (World Bank 1992, p. 29 and *Beijing Wanbao* [Beijing Evening News] 10-13 June 1991).

Selling both of new and old housing at preferential prices.: According to the principle of housing reform, a preferential price (so called standard price or cost price) for selling old and new public housing was calculated. Combining the experience in foreign countries and the average wage standard in Beijing, the local government set the housing price for sale to ordinary employees at 380 yuan per square metre. In the light of the theoretical price or calculated price, a house of 50 square metres would amount to the equivalent of five years official income for a working couple in Beijing, which was in keeping with that housing cost equivalent of three to six year's family income in foreign countries. In practice the market price of housing which was from 1500 to 2000 yuan or more per square metre[3] was much higher than this preferential price in Beijing, but most localities followed suit to set preferential prices suitable to their own local situations for selling public housing. Although this kind of housing price had appeared before, at this time this approach became open and legitimate. Since then a dual-track housing price has existed in the housing system.

The attempt to extend housing reform across the country as a whole after 1991 has not, as yet, been very successful. Under the current system, the workunits, which control most of the public housing stock, have to pay employees' wages, price subsidies, in-kind benefits and

pensions. As such, all housing reform measures, such as half contribution to the provident fund and subsidies for rent increase and housing sale, are little more than an internal circulation of funds within the workunits themselves. They do not give any encouragement for workunits to move forward with housing reform.

Therefore, since the Second National Conference for Urban Housing Reform, no fundamental progress has been made, though more concrete targets were drawn up by the new documents for urban housing reform, and more autonomy was given to local governments and workunits. This situation led to the holding of the Third National Conference for Urban Housing Reform in July 1994 in Beijing. At this conference, the State Council issued another document: "*Guanyu shenhua chengzhen zhufang zhidu gaige de jueding*" (Resolution on Deepening Urban Housing Reform [Office of the Leading Group of Housing System Reform 1994, pp. 1-16]). In this document, the sale of public housing was retargeted as the 'breakthrough point', in order to push forward the rent increase and other reform approaches. However, restricted by low income levels and irrational rent-sale price ratios, a wave of deep discounts on public housing sale appeared again. It led to an immediate State Council directive to ban the discount activities (IFTE and IPA 1996, p. 91).

So far, the results of the urban housing system reform have proven that the new strategies for promoting the reform did not achieve the desired results. Therefore, how to revise the general reform scheme in order to guide local governments to draw up more effective and feasible plans is still an urgent issue.

7. The impact of urban housing reform 1980-1997

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

7.1. Multiple channels for financing housing investment and the housing situation

After China's policy-makers changed their attitude towards the relationship between capital accumulation and consumption, urban housing investment was decentralised in order to overcome the housing crisis at that time. Developing multiple channels for housing

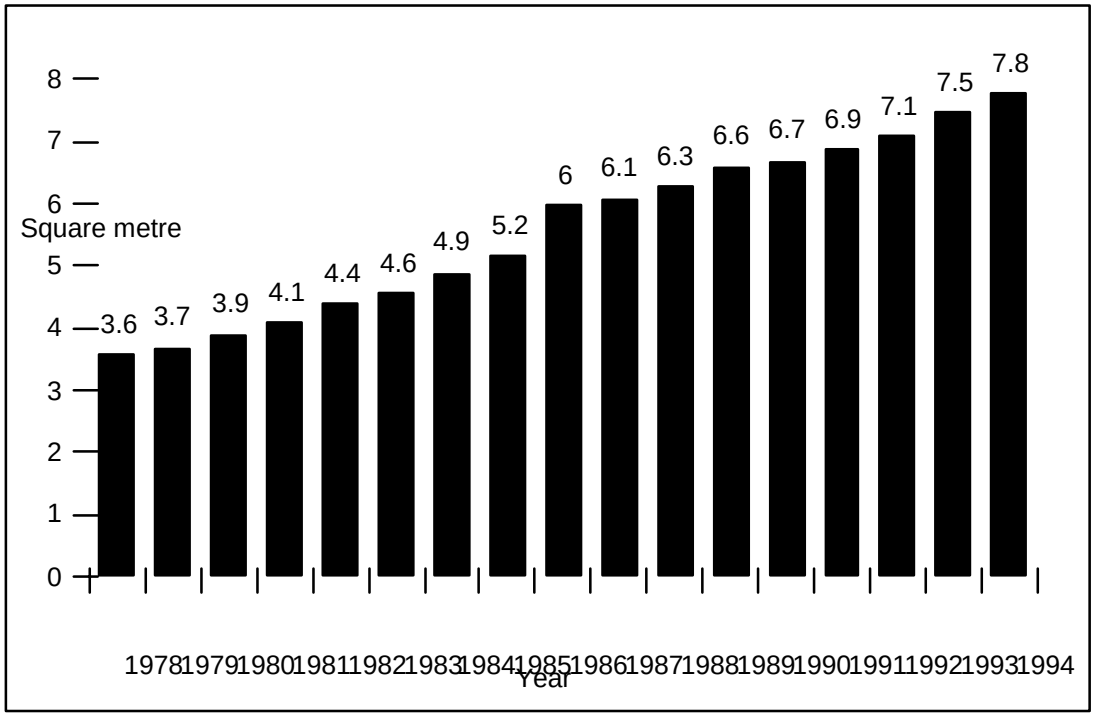
investment was a main target of urban housing reform. Has this gaol been achieved? We can see that the average standard of living space has been improved by means of the decentralisation of housing investment, but although multiple channels for urban housing investment have evolved, the main channel for housing investment and construction is still state-owned units. As a result, the decentralisation of housing investment has not changed the welfare system whereby urban housing in mostly provided by the government or workunits.

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

Figure 2 shows us that the average living space per capita increased from 3.6 square metres in 1978 to 7.8 square metres in 1994. Although the natural growth of the urban population was on the increase and a tremendous number of migrants moved into urban areas from the countryside, the living space per capita in 1994 was more than double what it was 17 years previously.

Decentralisation of urban housing investment stimulated local governments, workunits and individuals to invest in housing investment and construction. In solving the housing shortage, it was very successful, but, in reforming the old housing welfare system, this strategy had little impact. It did not overcome the defects in the old system of centrally controlled investment and administrative distribution, and it did not realise urban housing commercialisation. To date, housing investment by different levels of governments and workunits amounts to more than 70 percent (see: Table 2). This part of housing investment included capital construction investment, technical improvement and transformation investment. All of this came from the budgets of central or local governments and enterprise profits. For private investment, most of the investors are the new rich in the cities and private operators in the towns. The figures in Table 4-5 indicate that the monopoly of rigid central planning and housing control has been broken. However, although multiple channels for financing housing investment have been established, after 17 years of reform private investment is less than 20 percent. Urban residents still firmly rely on governments or workunits rather than themselves.

Figure 2 Living space per capita in urban area 1978-1994



Source: *Chinese Statistical Yearbook* 1990 and 1995.
Note: Due to the definition change of urban areas including the definition of cities and towns in 1984 and 1985, the range of urban areas was extended rapidly in this period. Because the average living space per capita in county towns is higher than in cities and large towns, in 1986 there was a jump in living space per capita of 0.8 square metre.

Table 4 Structure of housing investment in urban area selected periods

unit: percent

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

Source: *China's Urban Housing Reform*, IFTE and IPA (1996), pp. 208-210.

7.2. Commercialising urban housing and housing markets

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

In this approach, there was a dual-track pricing system. One was a 'preferential price' for selling public housing with heavy subsidies, the other a market price for housing sale according to market value. The housing market with a ‘preferential price’ is an ‘internal housing market’, because the public housing is only sold to the employees who work in the workunits, and a housing market with a market value for housing sale is an ‘open’ housing market, because anyone can buy in the market following market principles.

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

This approach could not establish a 'real housing market', because this price was only about one third of the real housing value. It did not reflect the relationship between the supply of and demand for urban housing as in the housing market in a market economy. On the demand side, the buyers were employees in these workunits; on the supply side, the seller was the employer or the workunit's owner. There was no competition, and the basic principle for setting the housing price was still determined by the government. Therefore, this approach was still within the old housing philosophy. The difference was that housing was now sold at a subsidised price instead of rented at a low rent Although implementation of the selling of public housing could relieve governments and enterprises from the burden of housing maintenance and the management fees, in the meantime it caused a drain on state resources because the government and enterprises had to provide large subsidies. Hence, it is impossible to realise the commercialisation of urban housing and the establishment of an urban housing market by selling public housing with heavy subsidies.

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

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

p.186). The housing market had been set up in terms of a housing market price and the development of the real estate operation.

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

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

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

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

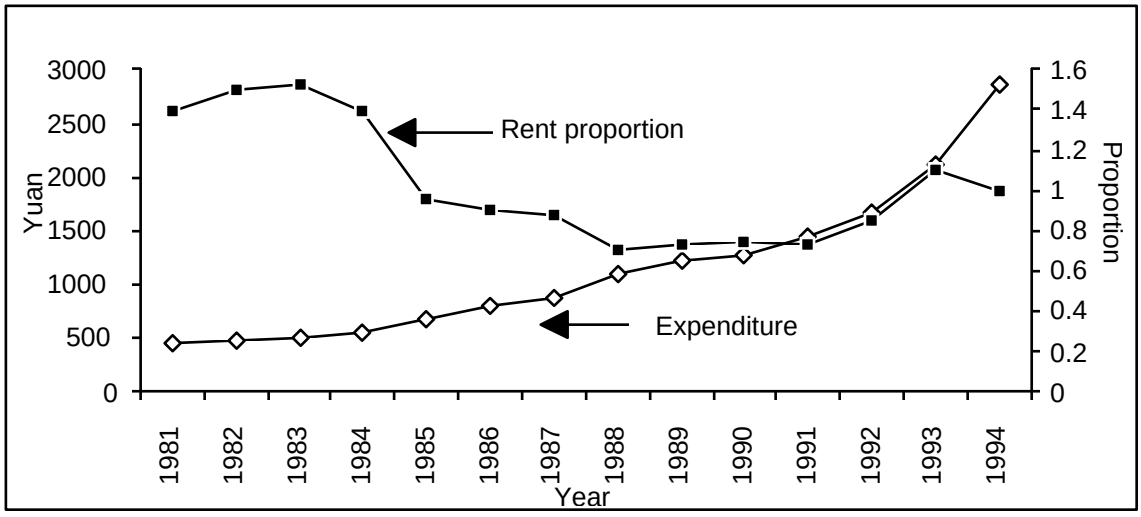
7.3. Increasing tenants' contribution to public housing - low rent system reform

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

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

With respect to consumption, the annual expenditure per capita in urban areas in 1994 is 4.2 times as much as that in 1985. The proportion of the rent to annual expenditure only increased by 0.04 percent (0.96 percent in 1985, 1 percent in 1994). The rent expenditure after the low rent system reform in 1994 decreased compared with the rent expenditures before 1985 (see Figure 3). Therefore the low rent system reform did not make tenants contribute more to public housing.

Figure 3 Expenditure and rent proportion for per urban resident (selected year)



Source: relevant *China Statistical Yearbooks* 1985-1995.

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

8. Conclusion

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

During this period, in solving the urban housing shortages, China's housing situation has attained a tremendous change. Living space per capita is more than double what it was before the reform and living conditions in urban areas have improved. The reform has not completed its scheduled aims, of establishing a new urban housing system based on a market-oriented economy, though there is some progress in implementing multiple channels for housing investments, selling public housing and raising rent.

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

The aim of selling public housing to private home-owners was to change the structure of housing ownership in order to establish an urban housing market. Due to a dual-track housing price, two housing markets exist. The internal housing market follows the old welfare system, with heavy subsidies. Although this approach relieves the government and workunits from the burden of maintenance and management costs, it turns the state-owned housing assets

into a loss. And market forces still do not play any role in the relationship between supply and demand due to various rigid regulations issued by different levels of governments. In the open housing market, the housing price is too high to be afforded by wage earners. In the meantime, people are not willing to buy their own housing because the low rent system still exists. Therefore, the effect of the open housing market has been limited.

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

To date, China's urban housing system reform has stressed relieving the burden of housing investment and solving the housing shortage. It has not fundamentally changed the old housing system. Although the reform has gained some achievements in multiple channels for investment, sale of public housing and raising rent, the result of the reform falls short of its target. Therefore, how to further reform the urban housing system in order to realise housing commercialisation and set up a housing market based on a market economic system is still open for discussion. If a new housing system is to be established, besides the aspects of the reforms discussed above, setting a rational housing price based on wage system reform and the affordability of residents, establishing efficient housing finance, clarifying and legislating for property rights and creating independent and socialised housing management companies should be implemented first. Otherwise, the old housing system will not be replaced by a new housing system based on a market-oriented economy.

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

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

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