

CHINA'S URBAN HOUSING REFORM---
WITH SPECIFIC EMPHASIS ON PROPERTY OWNERSHIP

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ABSTRACT

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This research paper examines China's urban housing reform with a historical perspective, which provides an insight into current housing policy. In the past two decades, urban housing in China has been under a drastic transformation. As a critical component of the economy, the housing sector has played a very active role in restructuring China's economic system. The housing reform has encountered significant resistance. This research focuses on the property rights issue, which is a major concern in housing reform. With a comparative approach, the study addresses the basic research question, what are the fundamental barriers in urban housing reform. The research also involves a comprehensive review of the concept of the property rights and related issues in Western countries to establish a theoretical framework for furthering China's housing reform in term of property rights. The research also involves an inspection of housing reform in selected post-socialist countries to explore alternative transformation policies. Further housing reform policy is also articulated.



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1.0 PREFACE

As a critical component of the economy, China's urban housing sector has played a crucial role of the transformation in restructuring the nation's socialist system into a more market oriented one. Systematic research is important to understand the current problems, identify alternative approaches of housing reform, and help invigorate the housing sector in China.

1.1 RESEARCH OBJECTIVES AND METHODOLOGY

This paper will focus on public housing in the urban areas of China. Because the central government has conducted some discriminating public policies in the rural areas, the housing issues between urban and rural areas are quite different. Since most housing investments of the central government are located in the urban areas, the urban public housing sector is the focal point of housing reform.

By employing property rights theories and related concepts, this paper is intended: (1) to establish the basis for a common understanding of urban housing reform in China and analyze the deficiencies in the housing reform policies, (2) to better understand property rights issues in Western countries as well as gain the constructive experiences in selected post-socialist nations, and (3) to explore different alternatives and provide policy recommendations on urban housing reform in China.

The research methodology focuses on an historical review of Chinese urban housing reform, the gradual transition of urban housing policy, and the transformation property rights issues. In the historical analysis, deficiencies in housing policy adopted in different periods of reform will be elaborated. With an emphasis on qualitative analysis, this paper also conducts horizontal comparative research of property rights issues with a focus on Western countries and selected post-socialist countries. Policy recommendations will be articulated in the conclusion section of the paper.

2.0 INTRODUCTION

2.1 THE IMPORTANCE OF HOUSING

Housing is the foundation for many basic human needs--survival, safety, pleasure, and dignity. For most people, housing is the bulkiest good and one of the most essential necessities, so its distribution fundamentally affects the social and economic structure. Housing development has become a key element of the economic and social affairs in most nations. The housing sector in general accounts for 10 to 20 percent of the total economic activity and 20 to 50 percent of reproducible wealth. In the U.S., over 20 percent of gross domestic product (GDP) goes for consumer spending on housing construction, housing-related goods and services, which is larger than all other industrial sectors (Seiders, 1997). The housing sector has important linkages to virtually all macroeconomic sectors, for instance, interest, savings, and inflation rates; unemployment, wage rates and even the balance of payments. The considerable influence of these linkages to the rest of the economy are increasingly being recognized and documented.

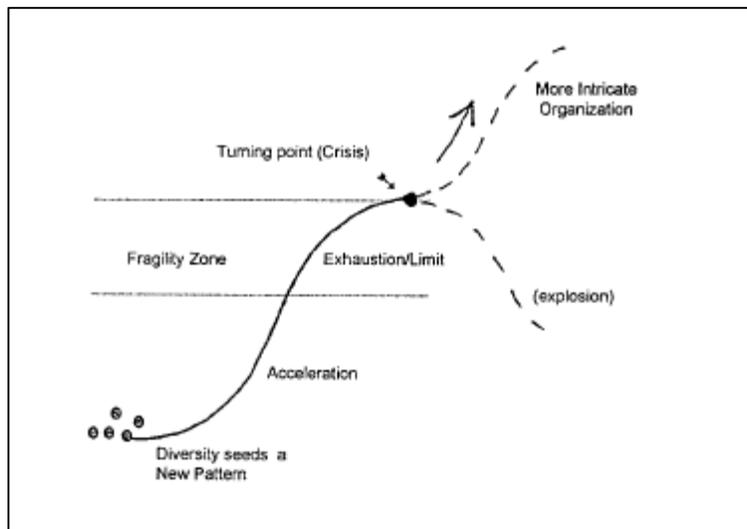
2.2 THE IMPORTANCE OF HOUSING SECTOR IN CHINESE ECONOMIC REFORM

In the ongoing dramatic social, political and economic transition of China, the housing sector has an even more important role to play. This is because the housing sector itself has to drastically endure a systematic transformation. This is also because economic reform in China is reaching a critical point. Impacted by the East Asian economic crisis and the heavy flooding in 1998, the Chinese economy is experiencing an ordeal. Domestic consumption is sluggish, unemployment is rising, and the currency is facing significant depreciation pressures. The central government has adopted a series of policies to expand investments, stimulate consumption and enhance domestic demand so as to ensure steady economic growth. One major strategy is to invigorate the urban housing market. Premier Zhu Rongji, who has made housing reform a top priority, was

hoping a newly emergent private housing market would stimulate domestic demand (Li, 1998). As a public policy to stimulate domestic consumption, at the recovery stages of the economic cycle, housing development is very significant to the whole economy in terms of its share of GDP.

Sally Goerner's S-curve concept best explains the current condition of China's economy. The theory analyses how natural energy accumulates, grows, and breaks at the turning point. After the fragility zone, the system either reaches a new level and becomes a more intricate organization or breaks into parts and the system collapses (Goerner, 1998). As a sub system of the Chinese economy, the housing sector is a critical component in the process of helping the Chinese economy to reach a new level. As the Chinese economy struggles in the fragility zone, extra energy is necessary to push the system into a new level. Activity in the housing sector can play such an important role.

FIG. 1. SALLY GOERNER'S S-CURVE CONCEPT



Source: Goerner, 1998

However, the housing reform policy has met some strong resistance. An article in a Chinese official magazine suggests that there are three major reasons for the resistance. First, general consumers still consider housing allotment as part of the social

welfare system. It is difficult for the general public to adapt to the market oriented housing distribution system in a fairly short time, since it takes time to learn the rules. At the same time, inconsistent reform policy is also accountable for the resistance. Secondly, there is no mature open secondary housing market. Most privatized public housing is still not allowed to be sold on the market. And thirdly, housing prices are excessively high for the majority of consumers, due to high land prices, numerous taxes, and fees, and the high expectations of real estate developers (Wen, 1998). These three explanations are reasonable. However, the author of the article overlooks one fundamental cause of the public resistance. That is the informal property rights system. The importance of a formal property rights system will be discussed in detail in the Section 3.23.

2.3 THE SIGNIFICANCE OF THE RESEARCH

Due to direct political intervention, past policies have created a situation in which the housing sector in China was heavily controlled by the government. Therefore, a strong legacy of distortion and costly impediments is apparent. A policy shift is necessary to overcome these obstacles if the housing sector is to achieve the potential of which it is capable. Some high officials in the central government have recognized the obstacles and started restructuring housing policy since the mid 1980's. After almost 15 years' reform, the high officials still can not reach a consensus about the direction of economic reform. Some of them are still reluctant concerning the market-oriented system and try to keep some socialist characteristics within the system. Therefore, the property rights issue in China is still a sensitive topic and lacks systematic research.

With time lapses, an increasing number of high officials have realized the trend to adopt a market-oriented economy is irreversible. The role of the central government has to decrease, housing polices have to take a larger market orientation. At the same time, the literature in the West on China's urban housing reform and the property rights issue is comparatively meager. Sooner or later the property rights issue in China has to be fully explored to ensure a more beneficial way of economic transformation.

Therefore, it is helpful to systematically study the theory based on property rights research in the Western countries, as well as to learn the experiences of post-socialist nations to best understand ongoing housing reform and the property rights issue in China. The property rights system in Western countries has evolved over many centuries and has become the prototype of the property rights system in most Non-Western countries. Concurrently, the current reforms conducted in most post-socialist countries are parallel to those in China. Therefore, the experiences from these countries are particularly helpful in terms of providing advanced experiences, as well as lessons in application of alternative policies.

3.0 AN OVERVIEW OF THE URBAN HOUSING SECTOR IN CHINA

The public housing system, operated since the foundation of the People's Republic of China in 1949, has provided Chinese urban dwellers with low-cost accommodation. However, the rapid urban population growth, the lack of systematic urban development planning, the bias in capital investments, and especially, the structure of the public housing system itself have caused a severe housing crisis in Chinese urban areas. In this chapter, the urban housing policy will be discussed by four periods which represent four major housing policy shift.

3.1 THE URBAN HOUSING SECTOR BEFORE ECONOMIC REFORM

Urban housing reform has its historical context. The major housing policy adopted after the 1949 communist revolution was titled “Collecting Rent to Support Public Housing (Zhang, 1996, p607).” The government collects a nominal rent that is used for compensating depreciation, routine maintenance, and management of public housing. The government is initially only responsible for housing construction. After construction, public housing is self-supported by the nominal rent. During the socialist transformation in the mid 1950's, the housing sector was no longer able to be self-sufficient. The average rent of urban public housing was decreased by 50 percent (Zhang, 1996). From then on, the rent was no longer enough to support the after-construction expenditure. The state heavily subsidized urban public housing. The welfare housing policy was carried on until the end of the 1970's.

3.11 THE BASIC IDEA OF THE HOUSING POLICY

Like other post-socialist nations, the historical evolution of the Chinese housing sector has been determined predominately by the role of the sector in the socialist orthodoxy—one which designated housing as a “social” rather than an “economic” sector. In China, land in the urban areas was owned by the state and land transactions were strictly forbidden after 1949. Criticized as a tendency toward capitalism, private

property ownership to housing in urban areas was almost abolished. The state controlled the production, allocation, operation, and pricing of urban housing. From 1949, urban housing has been under predominantly public ownership.

3.12 BASIC TYPES OF THE URBAN HOUSING

In urban China there are three broad types of housing: (1) private housing, (2) work-unit housing, and (3) municipal public housing. Proportions of the three types of housing in 1982 were 17.7 percent, 53.6 percent, and 28.7 percent of the total housing floor area respectively (Kirkby, 1985). Only the private housing is considered under semi-private ownership. Since the homeowner does not own the land and this housing ownership is not well protected by the public legal system, private ownership is not complete. Work-unit housing and municipal public housing are both under public ownership.

Most housing construction was under the public sector. Between 1949 and 1990, it was estimated that only 12.6 percent of housing was built by the private sector (individual families). Most of private housing was built after 1978 when the central government changed its policy toward private housing development (Tang and Xie, 1992).

3.13 THE SOCIALIST HOUSING INVESTMENTS

Decisions concerning each of these aspects of housing were made on the basis of planning decisions which had little or even no relationship to those in a market economy. The urban housing sector has been subjected to heavy subsidization. Nevertheless, following the guiding thought of "Production the First, Living Standard the Second, and Higher Accumulation with Lower Consumption," housing has been considered as 'non-productive sector' and thus deemed a low priority compared to other capital investments.

Public housing construction funds had come primarily from appropriation by the central government. It had then been reallocated to local government and to state-owned enterprises to build urban rental units. Through this income redistribution policy, employees, especially those in government offices and state-owned enterprises, had, and still have, received housing allocations from their work-units for nominal rents.

These nominal rents are a direct result of the low income and low expenditure policies instituted by the central government when the socialist economy was established. The state provision of housing and extremely low rent was argued by socialist theorists to demonstrate the superiority of socialism over capitalism (Lim and Lee, 1990). Under this system, the government collects an implicit income tax from workers through low wages, then redistributes them back to those people in the forms of housing, food, medical care, etc. This egalitarian policy has been utilized to equalize the wage differentials between different occupational groups. This is because socialists believe that income discrepancy is a fundamental equity problem of capitalism. Houses have been allotted in accordance with the length of service, position, number of children and their age. The housing market had been virtually eliminated before housing reform was launched in the mid 1980's.

3.14 THE CONSEQUENCES OF THE HOUSING POLICY

There have been severe consequences of this housing policy. First, although urban public housing is under heavy subsidization, the policy sacrifices housing for other "productive" capital investments (Chen, 1995). With constantly increasing urban population, there have existed, consequently, persistent shortages of public housing in urban areas. The housing shortage became prominent in the late 1970's. The urban per-capita living space decreased from 4.5 square meters in the early 1950's to 3.6 square meters in the late 1970's (Li, 1998). Without market functions, housing development was predominantly controlled by the government. The government plan always lagged behind the needs of the people.

Second, the system immobilized the urban labor force. Being tied to hard-won low-rent apartments, employees have been extremely reluctant to move or change jobs. This system has been responsible for China's minimal labor mobility - below one per cent of the 'non-agricultural' labor force in 1980's (World Bank, 1992). Labor immobility hinders the reallocation of labor resources, and therefore, impairs the vitality and the effectiveness of the open market. An ineffective labor market stifles the creation of new and smaller enterprises which do not have the capacity to provide housing for their employees. Even before economic reform, labor immobility already had a strong negative impact on the economic system. It was extremely difficult to reallocate human resources.

Third, the policy creates inequalities in housing allocation not only among different types of enterprise, but also among individuals. Before economic reform, housing was usually developed alongside other "productive" investment projects. As an integral part of a particular project, the necessary housing was provided for the expanded public-sector workforce. Also to better manage public housing, public housing development and maintenance were decentralized to individual public institutions, which include municipal governments and work-units. The state favored state-owned enterprises over of the municipal government and collectively owned enterprises in terms of the allocation of state housing investment funds (Lee, 1988).

Forth, inequity and corruption are inevitable during the housing allocation process. Public housing allocated through queues and hierarchy, which is meant to result in a fair distribution of housing, has not always been arranged in accordance with housing needs. Different work-units may have different explanations toward the housing policy. Therefore, law and regulations are rarely emphasized. The bureaucratic distribution process promotes the use of power and influence to obtain housing by those who do not particularly deserve it. Housing distribution has thus often rewarded those who have more power (Parish, 1984). Since housing is often the most important benefit from the state, significant discrepancies are created between those who have public housing and those who do not. Meanwhile, because the values of housing are not

uniformly distributed, when added to cash wages in calculating a real income, a capricious redistribution of income through housing distribution is created. However, to compare with most eastern European socialist nations, this equity problem was not that serious before introduction of the market economy in the mid 1980's. This was because the central government had a very strict control over the housing allocation process (Parish, 1984).

Fifth, since the central government subsidizes urban housing, there are considerable disparities between the rural and urban areas in terms of housing quality, facilities, and infrastructure, which causes significant pressures of rural immigrants on urban areas. With a strict population control policy, the immigration pressure was also not so apparent before the reform (Logan and Bian, 1993). Nevertheless, social inequity between rural and urban residents is inevitable.

Moreover, socialist housing policy prevents development of a housing market. Housing distribution is solely a governmental function. Without the market, there is almost no competition between house builders. Low efficiency is a direct outcome of socialist housing policy. New technologies are rarely adopted in the production process.

3.2 THE URBAN HOUSING SECTOR DURING ECONOMIC REFORM BETWEEN 1980-1988

3.21 VOICE FROM THE TOP

A new historic era in China began in December 1978 when the Third Plenum of the Eleventh Central Committee was held in Beijing. After years of economic stagnation and political turmoil, the government has recognized the deficiency of the old overcentralized, overextended, and stringent socialist regime at the end of 1970's. From then on, China has changed attitudes and started a period of transition away from a centrally planned economy. The operation of market was accepted step by step, and as a

supplement to a planned economy to improve efficiency and spur economic growth (Tsou, 1986, p221).

The top-down governmental structure in China suggests that top leaders are vital in carrying out reform. Some of them wanted to push reform as rapidly as possible. Others were more concerned with preserving some basic features of the socialist system. Many different ideas and paths were discussed and debated. Ultimately, new proposals and solutions were advanced. The discovery of new problems which have occurred in the aftermath of the new policies has led to the search for new solutions, and consequently, another round of policy debates (Tsou, 1986, p190). These reforms generally move the system toward greater reliance on market forces with less emphasis on privatization (Ma, 1997).

Urban housing reform is one of the major focuses of the economic transformation. Because of its importance, the central government is very cautious in applying new reform policy toward the public housing sector and carries out various experiments to commercialize the existing urban public housing (Lim and Lee, 1990). Because of China's political structure, the starting point of reform is always from the top leaders. In April 1980, Deng Xiaoping, the nation's paramount leader, made a speech on urban public sector housing to central government leaders:

“.. Urban residents should [be allowed to] purchase houses, or to build their own houses. Not only new houses could be sold, old ones could be sold too. [The buyers] may buy out-right; [they] may also pay by installment over a period of 10 to 15 years. I think the [public-sector] rent has to be adjusted in accordance with house building costs, and make people think purchasing worth more than renting... when increasing rent, low income workers should be subsidized. Housing policy should encourage the private and public sector to work together and the private sector may also participate in housing construction... (Deng, 1980).”

3.22 IMPLEMENTATION

Deng Xiaoping's statement symbolized a major shift of the long-standing policy toward the public housing system and it paved the way for subsequent new policies and

experiments. Following this guideline, experiments have been carried out in different cities with a focus on reorganizing housing production and promoting sales of public-sector housing to ensure a sufficient return from housing investments. The experiments were the major activities in housing reform between 1980 and 1988. Nevertheless, few policies provided incentive for private or other forms of housing investment. The public sector has kept a leading role in housing construction (Liu, 1991). A recent study indicates that private housing occupied 18.7 percent of total housing floor area in 1990, which did not change significantly from 17.7 percent in 1982. The only significant change was that the work-units gained more control over public housing than local authorities (Gu and Gao, 1992).

During that period, the central government was reluctant to adopt fundamental structural reform in regard to property rights. The top officials believed that the socialist regime was superior in terms of providing social equity to their people. Therefore, reform was focused on increasing efficiency of the public sector by leasing out use rights of public property. In other words, the central government was in favor of marketization rather than privatization as the focus of economic reform. They were trying to introduce competitors into the economy without the privatization of public property. To increase the efficiency of the economy, the central government pushed different state and local owned enterprises to compete with each other in the market. But the ownership of these enterprises was still held by the central or local government.

Major housing policies adopted in that period of time included encouraging new housing sales for just building costs alone, subsidizing public housing sales, and increasing public housing rents steadily each year to promote sales (Wang and Murie, 1996). Although the leaders have addressed the urban housing problem with a complex series of reforms, numerous difficulties have emerged in creating housing markets within a centralized political and economic system.

3.23 THE OUTCOME

By the end of 1980's, most of the urban housing problems still existed after several years of housing reform. Some of the old problems were even more prevalent. Among those major concerns about the public housing system, the problems of urban housing shortage, insufficient investment, unfair allocation, and poor management were most commonly identified (Wang and Murie, 1996).

Housing shortages still prevailed in the urban areas, despite the large quantity of housing that was built after 1978. Average floor space per person in urban areas was 6.3 square meters per person in 1988 (*State Statistical Bureau, 1993*). There were still 4 million urban households living in accommodations with an average personal floor space of 4 square meters in 1994. Among them, 400,000 households had an average floor space of 2.5 square meters per person (Sun, 1994).

Table 1. THE HOUSING CONDITION OF URBAN RESIDENTS

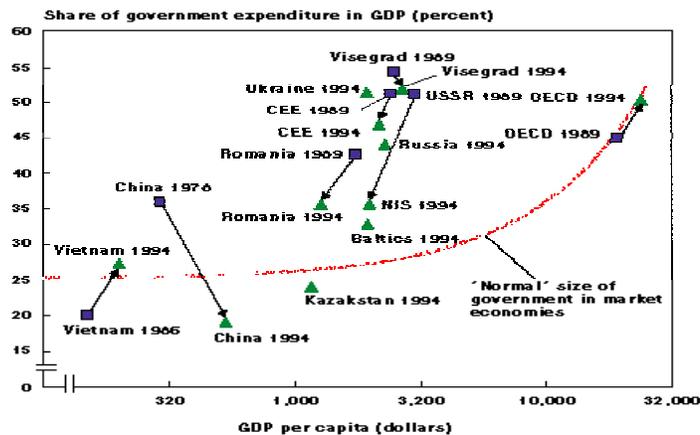
Year	1978	1980	1982	1984	1986	1988	1990
Average floor space per person (m ²)	3.6	3.9	4.4	4.9	6.0	6.3	6.7

Source: State Statistical Bureau (China Statistical Report 1993, p13)

Housing investments were still insufficient. In the centrally planned economy, housing investments were provided solely by the state through a redistribution process. During economic reform, the central government adopted policies to decentralize the managerial power and introduced market functions into the economy. Without experience of the market economy, however, the majority of the state owned enterprises became less competitive than the newly emerged collective owned and private enterprises. Central government income and expenditure decreased steadily in terms of the share of GDP. Consequently, the public housing subsidization from the central government could not keep up with the increasing housing demand of the public. Although the private sector increases steadily each year, there was not enough incentive for the private sector to move toward urban housing investments because of the risk.

Thus, the private investments in housing production were low, and, insufficient total investments in urban housing were inevitable.

Fig. 2. GDP PER CAPITA AND RATIOS OF GOVERNMENT EXPENDITURE TO GDP IN SELECTED TRANSITION ECONOMIES



Source: *World Bank*, “Executive Summary,” 1996

Also because of the low rent system and severe inflation during that time, the rent collected from urban public housing could not even cover basic expenditures such as depreciation, routine maintenance, and management. The housing investments from the central government could not keep circulating within the system and the reproduction process could not continue. The first period housing reform was not successful in regard to its objective to ensure a sufficient return from housing investments.

TABLE 2. THE PERCENTAGE OF HOUSEHOLD EXPENDITURE ON HOUSING IN THE TOTAL URBAN HOUSEHOLD EXPENDITURE

Year	1978	1985	1990	1991	1992
Percentage	1.93	0.96	0.74	0.73	0.86

Source: China Statistical Report, 1993

TABLE 3. THE PERCENTAGE OF HOUSEHOLD EXPENDITURE ON HOUSING IN THE TOTAL URBAN HOUSEHOLD EXPENDITURE IN BEIJING URBAN DISTRICTS

Year	1978	1985	1990	1991	1992
Average income per person (RMB Yuan)	364.46	676.99	5306	5754	6804
Average expenditure on housing per person (RMB Yuan)	8.41	11.11	68.5	68.5	277.2
Percentage	2.31	1.64	1.29	1.19	4.07

Source: Beijing Research Group on Public Rental Housing, 1997

The actual rent of urban public housing was even lower during the first period of housing reform. Nominally, the rents had been increased steadily each year. Due to the severe inflation, the actual expenditure on housing declined in terms of the percentage in the total household expenditure. After years of housing reform, people have even less incentive to purchase houses. At the same time, the low rents were not enough for paying routine maintenance. Therefore, the low rent policy was identified as the main reason for the housing problems, including the low quality of new housing, poor management and maintenance. In some cities, the monthly rent of a typical flat was even less than a pack of good cigarettes.

During the reform, people's income increased steadily each year. In 1987, urban residents held a total 200 billion RMB (25 billion USD\$) in saving. Lacking opportunities in investment of their savings, people tend to spend more on luxury items. Statistics show that the percentage of urban households that had home electrical appliances in China was comparable to countries where average household income was 1000USD\$. Actually, the average household income in China in 1987 was only about 300USD\$ (Chen, 1988).

TABLE 4. THE PERCENTAGE OF HOUSEHOLD EXPENDITURE ON HOUSING IN THE TOTAL RURAL HOUSEHOLD EXPENDITURE

Year	1978	1982	1984	1990
Percentage	3.2	10.2	11.7	12.9

Source: Chen, 1991

Social equity was further impaired. From Table 4 we can see that the percentage of the expenditures on housing in total rural household expenditures increased over 12 years and reached 12.9 percent in 1990. At the same time, that number in urban areas has dropped to 0.74 percent. Because the central government increasingly subsidizes the urban housing sector, the urban-rural discrepancy has been substantially expanded in terms of living quality and facilities. The policy also has caused even greater immigration pressures from rural to urban areas.

During economic reform, the power of the central government was partially decentralized to the work-units and the local government. The state had less control over the distribution process. The role of the state changed from managerialism to entrepreneurialism (Wu, 1997). Therefore, power, personal status, and personal relations were more important for access to housing. Unequal distribution and corruption in the allocation process caused serious complaints from the general public (Kou, 1998). Political corruption was a major concern of the June 4th, 1989 democratic movement (A Public Letter to the Communist Party, the National Congress, and the State Council, 1989).

The discrepancy in income was still large between those who had public housing and those who did not. Addressing the income discrepancy, the government adopted two types of subsidization. Subsidization through real housing is called material subsidization. Subsidization through currency is called monetary subsidization. From the following table, it is easy to recognize that the income disparity was still severe.

TABLE 5. IN 1992, WORKER'S INCOME FROM HOUSING SUBSIDIZATION IN THEIR TOTAL INCOME (PERCENTAGE)

	Material subsidization	Monetary subsidization	Total
Average	23.1	11.4	34.5
Urban residents who have public housing	30.5	11.4	41.9
Urban residents who do not have public housing	---	11.4	11.4

Source: Hou, 1996

Another consequence was the creation of a rent gap and a black urban rental housing market (Wu, 1997). This problem is typical in the quasi market economy in which market and central control both function. In fact, the distribution system in the quasi market economy is more complicated than either a socialist economy or a market economy because of applying both market and socialist rules. From the following table, we can see that the severe rent gap between the subsidized rent and the market rent. Although it is illegal to rent a public house, the black market is very active due to the significant rental discrepancy. To compare with the situation before economic reform, people who hold excessive public rental housing now may exchange their housing benefit with monetary benefit through the black market. It is even more difficult for them to give up the excessive housing over their needs.

TABLE 6. RENT GAP BETWEEN SUBSIDIZED AND BLACK MARKET RENTS: SELECTED CASES IN BEIJING, 1994

Case no.	Floor space (square meters)	Subsidized rent (RMB)	Black market rent (RMB)	Rent gap (ratio) (Black market rent /Subsidized rent)
1	15	1.56	1,200	769.2
2	31	4.76	1,500	315.1
3	45	3.82	900	235.6
4	30	3.50	600	171.4
5	11	1.87	300	160.4
6	16	3.85	450	116.9
7	14	1.31	400	305.3
8	15	2.81	600	213.5
9	35	3.23	1,000	309.6
10*	17	2.30	600	260.9
11*	1,487	320.00	275,000	859.4
12*	60	39.14	30,000	766.5
13*	400	285.94	120,000	419.7
14*	172	48.56	120,000	2471.2
15*	35	94.26	60,000	636.5
16*	140	77.66	135,000	1,738.3
17*	11	3.36	15,000	4,464.3

(*) Leased by work-units

Source: Compiled from (Deng, 1995)

One of the major causes of the public housing problem, which still lacks enough attention, is the informal property rights system. Without a formal property rights

system, urban residents will be reluctant to purchase private houses and it is difficult for the housing market to be self-sustainable. Without a mature housing market, the investments will not start to flow in housing development. Housing reform in 1988 became a deadlock situation (Wen, 1998). Further steps were necessary for housing reform. The property rights issue will be discussed in detail in a later chapter.

3.3 FURTHER URBAN HOUSING REFORM AFTER 1988

At the beginning of 1988, the central government held the first national housing reform conference in Beijing. The conference discussed the experiences in the several pilot projects. It agreed that housing reform could bring about great economic and social benefits. A systematic housing reform plan and a bigger step reform were necessary. The major resolutions of the conference were summarized in a document, "Implementation Plan for a Gradual Housing System Reform in Cities and Towns," by the newly formed State Council's Housing Reform Steering Group. It was formally issued by The State Council in February 1988 (The State Council, 1988; Zhang, 1996, p.63). This document marks a turning-point of urban housing reform from pilot tests and experiments in selected cities to overall implementation in all urban areas. It is the most important policy document on housing reform.

Identified by the conference, the overall objective of the Implementation Plan was "Accomplishing Housing Commercialization According to the Principles of Socialist Planning Market Economy (*The State Council*, 1988; Zhang, 1996, p.613). " Accelerating the housing sale through increasing urban housing rent, marketizing the housing allocation, and establishing a public housing fund was recognized by Mr. Gao Shangchuan, Deputy-Director of the State Commission for the Structural Reform (Wang and Murie, 1996).

3.31 THE 1991 RESOLUTION

In June 1991, after both of the economic and political situations were stabilized, the comprehensive housing reform was carried out. A new urban housing document titled “The Resolutions of The State Council about Actively and Appropriately Carry out Urban Housing Reform” was adopted. This was an updated version of the 1988 resolution. Although there have been no significant changes in the overall objectives to compare with the previous plan, the goals and procedures of further housing reform were more specific (*the State Council Document*, 1991, no. 30; June 7th, 1991). More importantly, for the first time, the resolution unequivocally recognized ownership of private housing purchased from the public sector. Nevertheless, private housing ownership was still vaguely defined in the 1991 resolution. Several new terms were adopted to facilitate housing sales, such as the standard price and the prime-cost price. According to the 1991 resolution, the prime-cost price is total cost of housing construction and facilities without profits. The standard price is the subsidized housing price, which is lower than the prime-cost price. These terms were not given detailed explanation and left room for policy debates.

In the 1991 Resolutions of The State Council about Actively and Appropriately Carry out Urban Housing Reform *Article 2* states:

“SELLING PUBLIC HOUSING

From now on, the buyer shall have complete ownership of the house, if the public house is purchased at the market price. Workers may purchase public housing at the standard price, if the area of public house they purchase is under the area as stipulated by the government. Workers shall have partial ownership of the house, which may be inherited or resold. ...”

Article 7 states:

“ENHANCING THE MANAGEMENT OF REAL ESTATE MARKET

...The owner who has partial ownership of the house may resell the house in 5 years after purchasing the subsidized public house. The previous public landlord has the priority to purchase such house...”

Although the detailed steps were vaguely set, the strategy of further housing reform was clear. The urban housing sector would eventually rely on market forces, and the government would play a less important role in the urban housing sector. To nurture a housing market, further reform will focus on privatizing public housing. One major step is to change the welfare distribution system. In other words, the material distribution of housing will be replaced by monetary distribution. Instead of “getting” houses from the government or work-units, people will have to buy their houses from the market.

The increased average income in urban areas, which was brought about by economic reform, has made the progress of urban housing reform possible. However, despite the progress of housing reform, the current situation was far from satisfactory in terms of achieving the goals of reform. As mentioned before, during the 1980s and 1990s, most families spent their savings on consumables including electronic goods such as TVs and refrigerators. Concurrently, most people are still unwilling to purchase their home. By 1996, 3 billion square meters of residential units have been finished. The average of urban per-capita living space was raised to 8.47 square meters. Nevertheless, there were still 50 million square meters of unsold housing (Li, 1998). Although a quasi urban housing market had been established, most participants in the market were not yet individual buyers. Instead, the work-units dominated the housing market. The overwhelming majority of urban residents were still living not only in public-sector housing but also in housing tied to their employment (Wang and Murie, 1996). With different interests and more independent policies, the work-units and local governments tend to purchase the housing from the market and provide them to their employees with a rent much lower than market rent. Consequently, there is less incentive for urban residents in the work-units and local governments to purchase the houses. In that sense, urban housing reform still has a long way to go.

TABLE 7. THE DIRECTION OF CHINESE URBAN HOUSING REFORM

Categories	Pre housing reform	The direction of housing reform
Nature of housing	A welfare service	A consumable commodity
Distribution	Secondary Material Free	Primary Monetary Through market
Ownership and Tenure	Public dominates Public rental	Private Owner-occupier
Rent	Subsidized minimum rent	Market rent
Source of investments	State government	State government, local government, work-units and individuals

Source: (Wang and Murie, 1996)

3.32 THE 1994 PLAN

In July 1994, after the third national housing reform conference was held in Beijing, The State Council published an updated plan titled “the Decisions of the State Council on Deepening Urban Housing System Reform.” The new plan emphasized defining the relations between the state, work-units, and individuals. Along with the updated plan, there are several detailed explanatory documents. These documents are the most important and comprehensive policy documents on housing reform to date. To compare with the previous plans, this plan sets the overall strategy and provides many applicable measures. The 1994 plan still focuses on promoting sales of public-sector housing.

The privatization of public housing is still slow. By the end of 1995, only 30.5 percent of public housing has been privatized. In the metropolitan cities, the privatization rate is even lower, for instance, the privatized public housing rate in Beijing and Tianjin are 18 percent and 15 percent respectively. Moreover, most of the new owners have only partial ownership of the houses (Zhang, Zuoji ed., p.617).

In the 1994 plan, the conceptual differences among different types of housing price are further clarified. Currently, there are three types of prices for housing adopted in the urban housing sector, which are market price, prime-cost price, and standard price. The specific information is as the following table.

TABLE 8. COMPARISON OF THREE TYPES OF HOUSING PRICE

Title	Market price	Prime-cost price	Standard price
Mechanism	Free market, Supply and demand	Only prime-cost of the construction which excludes profit Set by the government	Subsidized price, either the governments or the work-units subsidize part of the construction cost as social benefit. The prices are set in accordance with the average incomes level of different regions. Specific formula is provided by the 1994 plan.
Cost included	land use right fee, construction cost, profit, appropriate taxes, fees, etc*	Land use right fee, survey and pre-construction cost, construction cost, public facility fee, management fee, interest, and taxes.**	The amount of subsidization depends on the years of service, local average income level, and etc.***
How does the price change?	The price is self-adjusted in accordance with supply and demand.	The price must be adjusted each year in accordance with actual cost.	Although a formula was provided, the actual calculation is quite flexible and sometimes difficult to follow. The price must be adjusted each year in accordance with actual cost.
Miscellaneous	<ul style="list-style-type: none"> - Final goal of housing reform. - Full ownership 	<ul style="list-style-type: none"> - Mid term goal of housing reform - Partial home ownership - Previous public landlord has the priority in terms of purchasing the house. 	<ul style="list-style-type: none"> - This is a transitional price, which is more subsidized by the government than the prime-cost price. - Less home ownership than prime-rate price - Previous public landlord has the priority in terms of purchasing the house.

* State Commodity Prices Bureau, Ministry of Construction, Ministry of Finance, and the Bank of China together issued the Temporary Regulations on the Price of the Commercial Housing (1992, document on price regulations no. 384).

** *State Council*, the 1994 The Decisions of The State Council on Deepening Urban Housing System Reform, *Article 15*

*** *State Council*, the 1994 The Decisions of The State Council on Deepening Urban Housing System Reform, *Article 16*

In the 1994 plan, the central government tries to increase housing demand by lowering the housing sale price. Most public houses are sold at the standard price, which is lower than the prime-rate price. In that way, the central government provides more subsidization to the public housing buyer who has a lower average income level. However, the standard price is not a sustainable price, since it is far below the market price. This contradicts with the reform objective, which is to ensure a sufficient return from housing investments. Thus, the immediate goal of the government is to increase the standard price to the prime-cost price. Eventually, all public housing will be pushed

into the market and sold at either the prime-cost price or market price. The housing sector will be self-sustained.

The other way to increase demand of private housing is to increase the rents of the public rental housing. In 1994, the average expenditure on housing in urban areas was about 4 to 7 percent of average household income of an urban resident. According to the 1994 plan, the housing rents will be increased considerably in the coming years. The objective is to increase the rent to the prime-cost rent level, and in the future, to the market rent level. The workers and staffs will be provided with housing allowances, which may help stimulate the purchase of houses by individuals (The State Council Document, 1994 no. 43, July 18th, 1994 in Zhang, 1996, p.615).

Among those revisions in the 1994 plan, clarifying ownership of privatized public housing is one of the most important items.

In the 1994 The Decisions of the State Council on Deepening Urban Housing System Reform *Article 21* states:

“CLARIFYING OWNERSHIP

If the public house is purchased at the market price, the buyer shall have complete ownership of the house. In accordance with appropriate laws and regulations, the owner may sell his/her house in the market. The income belongs to the seller after the seller pays appropriate taxes and fees.

If the public house is purchased at the standard price, the buyer shall have partial ownership of the house. The buyer shall have right of occupation, right of use, partial right of profit, and partial right of transfer, which may be inherited. The percentage of ownership is accordance with the percentage ratio between the standard price and the market price of that year. Generally, the worker (owner) who purchases his/her house with standard price may resell his/her house in 5 years after purchasing. The previous public landlord has the priority to rent or purchase such house. ... The owner who has partial ownership receives part of the sale price in accordance with the percentage of the ownership s/he has...”

Although this is a more detailed plan, there are still many questions left unanswered, especially in regard to home ownership. Since the central government owns the land in urban areas, it is still a question how the government will collect the land-leasing fee. After the lease of the land expires, will the government continue the lease with the current homeowner? If so, how?

In the 1994 plan, home ownership has been defined as the four categories which are right of occupation, right of use, right of profit, and right of transfer, which may be inherited (State Council, 1994). Without a detailed explanation, the concept of home ownership is still not clear. Because of vaguely defined home ownership, people are still reluctant to invest their lifetime savings. Financial institutions are also reluctant in providing financial support. The housing market is still far from being mature. It is generally acknowledged that a large housing market can only take shape and become vigorous if open market rules prevail. Formal and secure property ownership is the key element of open market (Saywell, 1998).

3.4 CURRENT STAGE OF URBAN HOUSING REFORM

Currently, housing reform has reached a new critical point. As mentioned before, the economic growth has been slowed down, and has slipped from 8.8% in 1997 to 7.2% in the first quarter of 1998 (*the Economist*, 1998). Economic reform has been jeopardized by an intolerable level of unemployment or semi-unemployment. To spur domestic consumption, it has been proposed to reform the housing market in the cities, defined by Zeng Peiyan, the head of the State Development Planning Commission, as the main focus of further reform. Although the new Premier Zhu has adopted a series of policies in nurturing the housing market and promoting private investments into the housing market, the condition is still far from optimistic. Private investors are proving reluctant to invest their capital in a market which they perceive to be unreliable. In a recent report, there are four million households in urban areas living in space of less than four square meters per person. Meanwhile, many commercial houses are left unoccupied. According to Wu, the deputy secretary-general of the Shanghai Housing Authority, about 10% of

private housing is sitting empty (Saywell, 1998). In 1997, statistics shows that the nationwide selling of commercial houses increased 15.9 percent, but the total area of living space left idle increased by 23.7 percent. By the end of 1997, there were more than 70 million square meters of unutilized commercial housing space. 30 percent of the nation's real estate development enterprises are operating in the red. After 4 years adopting the 1994 plan, the total spending on housing by urban residents accounts only for about 7.7 percent of the average household income. The number is far below the goal set by 1994 plan that average household expenditure on housing should increase to 17 percent by 2000 (Kou, 1998). Therefore, some major steps have to be taken.

3.41 THE NEW 1998 RESOLUTIONS

In July 1998, the new State Council recently adjusted the housing policy and issued an official document titled "the Resolutions on Continuing Urban Housing System Reform, Accelerating Housing Development." One of the major steps, claimed by Xie Jiajin the director of Housing and Real Estate Agency under Chinese Ministry of Construction, is terminating the material distribution of housing at the end of 1998, which will be completely replaced by monetary distribution (Xie, 1998). According to the new plan, no newly built apartments are allowed to be allotted according to the old system (Kou, 1998). The new policies symbolize the ending of the existing welfare housing allotment system, and all houses will be commercialized. However, it is doubtful whether the new policy will succeed without further clarifying home ownership.

4.0 INSTITUTIONAL FRAMEWORK OF PROPERTY RIGHTS

As the relations among people concerning the use of things, property rights lie at the nexus of economics and politics (Furubotn and Pejovich, 1972). During economic reform, changes in the economic system often create pressures for changes in property rights. Simultaneously, the property rights system also fundamentally impacts the political stability of the state (Weimer, 1997). These relations suggest that a comprehensive knowledge of property rights and their changes during Chinese economic reform is extremely important in studying urban housing reform. In this chapter, the concepts of and connections among property rights, the property rights system, ownership, and the central government will be the major focus.

4.1 PROPERTY, PROPERTY RIGHTS, AND OWNERSHIP

Understanding property, property rights, ownership and their relations is critical in understanding how an economy functions. The changing of property rights is an important indicator of economic reform.

About property rights, I. Fisher said: “A property right is the liberty or permit to enjoy benefits of wealth while assuming the costs which those benefits entail... property rights are not physical things or events, but are abstract social relations. A property right is not a thing (Fisher, I. 1923).” Property is any object of transferable rights to exclusive use. Property rights refer to the right to transfer, to exclude, and to use. These rights can be strengthened or weakened so as to protect and advance different kinds of interests (Wenar, 1998). This definition of property rights emphasizes the relation between individuals instead of the relation between individual and property (Pejovich, 1990). Moreover, property rights are a set of legal relations between people in regard to some means of production (Pryor, 1973). The legal relations are positive rights and usually enforced by the state (Wu, 1994). These rights embody several characteristics, of which three are particularly notable: exclusivity, transferability, and quality of title (Devlin;

Grafton; Rowlands, 1998). Property rights owners can be either private persons or entities, or public institutions, such as state government.

Property rights and home ownership are two important concepts what are entwined together. The right of ownership is a category of the general concept of property rights. Roman law specified several categories of property rights, which includes ownership (Pejovich, 1990). Ownership refers to the state, relation, or fact of being an owner. By extension of contract, ownership includes the right to exclude others. It is always restricted by regulation or law (Campell; Lindberg, 1990).

The right of ownership is a category of the general concept of property rights which contains the following four major elements: (1) the right to use an asset (*usus*), (2) the right to capture benefits from that asset (*usus fructus*), (3) the right to change its form and substance (*abusus*), and (4) the right to transfer all or some of the rights specified under (1), (2), and (3) to others at a mutually agreed upon price (Pejovich, 1990).

4.2 TYPICAL CHARACTERISTICS OF PROPERTY RIGHTS SYSTEMS

Property rights systems include the rights themselves and the formal and informal institutions that create them. Property rights systems play a key role in determining patterns of equality or inequality in access to resources (Weimer, 1997). There are four major characteristics of a property rights systems which affect the efficiency of an economy: clarity of allocation, cost of alienation, security from trespass, and credibility of persistence (Riker and Weimer, 1993, 1995). These characteristics significantly affect the efficiency of an economy and how an economy utilizes its available assets.

4.21 CLARITY OF ALLOCATION

Every economic system allocates property rights in certain ways. In post-socialist countries like China which intend to adopt a market oriented economy, markets

fail to achieve Pareto efficiency when private property rights are not clearly defined (Weimer, 1997). General speaking, the use of private assets is more clearly allocated, and therefore more efficient, than the use of state assets. This is because the private property owners have stronger incentive to specialize in monitoring capabilities than do public property owners (De Alessi, 1983; Lott, 1987; Vining and Weimer, 1990; Vining and Boardman 1992). One of the most striking evidence on the general inefficiency of public property ownership is the significant increase in Chinese agricultural output after the organizational shift from the collective farm to the household responsibility system (Lin, 1992). In some post-socialist countries, the weakening of the central government makes the allocations of rights even less clear, which partially explains for the immediate economic decline (Olson, 1982).

4.22 COST OF ALIENATION (a conveyance of property to another)

Reallocation of commodities and assets is necessary for achieving Pareto efficiency. The less costly it is to alienate property, the more efficiently the market can push commodities and assets to their maximized efficiency (Weimer, 1997). There are several ways that government policies can raise the cost of alienation. In China, the most prevalent one is lacking a mature legal framework and the failure to establish and enforce contract law.

4.23 SECURITY FROM TRESPASS

The security from trespass is critical in terms of the efficient use of assets. Insecure rights divert resources to defensive activities that reduce productivity (Baumol, 1990). Some post-socialist countries have suffered from the weakened institutional support for security from trespass. Therefore, an effective central government is helpful in adopting and enforcing new transformation policies.

4.24 CREDIBILITY OF PERSISTENCE

The credibility of persistence of property rights affects efficiency and economic growth (Weimer, 1997). Governments play a critical role in preserving the credibility of property rights. From the experiences of some post-socialist countries, the greatest threat to the persistence of property rights comes from changes in government and government policies. In other words, a stable government is essentially important to the persistence of property rights. A recent study shows that countries with strong property rights systems appear to have growth rates almost twice those of countries with weak property rights systems (Leblang, 1994). There are also a number of economic historians have pointed out that the importance of credibility of property rights to economic performance (North and Tomas, 1973; North, 1981, 1990; Jones, 1981; Rosenberg and Birzell, 1986).

4.3 THE ROLE OF THE STATE IN DEFINING PROPERTY RIGHTS

The state, as the maker and enforcer of laws and regulations, plays a crucial role in shaping property rights. Both public and private property rights are dependent on the power of the state to prevent incursions by non-rights holders (Wu, 1994). An effective property right regime requires a credible commitment by the state to non-arbitrary enforcement of rights (Kiernan and Bell, 1997). This is especially true in China, where the central government still plays a dominating role in almost all respects. Nevertheless, the leading role has been weakened by economic reform and its position will be impacted by further decentralization policy.

4.4 PUBLIC PROPERTY RIGHTS VS. PRIVATE PROPERTY RIGHTS

It is probably safe to say that neither the private property rights regime nor the public property rights regime is desirable for all types of assets. Different property rights regimes work best for different characteristics of the assets.

The reason the socialist countries adopt public property ownership is that the socialists believe each community has a common good, which is a system of ends

representing all absolute social values. Therefore, the general institutional arrangements and rules of the society must channel the behavior of individual members of the community toward the pursuit of the common good. The community is then considered as an organization in which each individual is expected to subordinate his private ends and cooperate with others in pursuing the common good (Pejovich, 1990). Consequently, public property rights were prevalent in most socialist countries. Under some circumstances, private property rights also exist in some socialist countries on a limited scope.

To the contrary, the pure classical liberal or capitalist community has no common good. It is a voluntary association of individuals who participate in and leave the pursuit of their own private ends. The rules of the capitalist community are not developed to serve some preordained common good. Therefore, private property rights are dominant in the capitalist countries (Pejovich, 1990). Nevertheless, private property rights are also limited by some regulations such as zoning laws, civil rights laws, etc. In some senses, there are no absolute private or public property rights.

In a private property rights system, private property is sacred and inviolable. Blackstone wrote in his Commentaries on the Laws of England that nothing “so generally strikes the imagination and engages the affections of mankind, as the right of property; or that sole and despotic dominion which one man claims and exercises over the external things of the world in total exclusion of the right of any other individual in the universe (Blackstone, 1782).” Although that elevated position does not exist today, private property owners still have significant control power over their property. Ownership of the asset is protected by the rule of law. Private individuals thus feel secure that their possessions are protected by the institutional mechanism that applies the rule of law. In Western economies the mechanism that applies the rule of law is the court system and the various agents of the law. It typically operates independently from the political system, although the legislature and executive branches of government can and do affect the rules that apply at any point in time (Devlin; Grafton; Rowlands, 1998).

Under the private property rights system, resource allocation is primarily determined in accordance with wealth an individual person has. The more resourceful (richer) a person is, the more in he or she is able to affect resource allocation. Therefore, although people are declared equal in terms of human rights under the law, they are unequal in terms of the ability to access resources (Lai, 1997)

China, as a state-owned property rights regime, has had a very different path toward property rights. In China, most property rights are both held and protected by the state which declares itself as the representative of the general public. Therefore, the prevalent type of property ownership is state ownership. State ownership implies that the state may exclude anyone from the use of a right as long as the state follows accepted political procedures for determining who may not use state-owned property (Demsetz, 1967). Since the central government is not elected through a democratic process, it is difficult to conclude that the state is the representative of the general public. Therefore, it is difficult to say China has adopted a public property rights system as such. Although other types of ownership also exist, the state is in the absolute position when conflicts arise among different stakeholders. For instance, when property rights conflicts arise between the state and the local property owner, the state may resort to administrative procedure instead of legal procedure to solve the conflicts. In other words, the state can use its command to force local authorities to accept the will of the central government. The purpose of state ownership is to facilitate adoption of a common ideology by which every one must continuously acquire his income by working for an employer or by qualifying to receive it for a public authority (Meade, 1965). Therefore, no capable person can live without working.

Without a property rights transition as exists in the capitalist countries, separate legal institutions rarely function under a state-owned property rights regime (Solomon, 1995). Typically, individuals are able to use assets but they do not “own” them. The state decouples the *usus* (the right to use) from other property rights and delegates it to property users. Hence, their ability to exclude others from using the asset may be limited and they certainly would not be able to transfer assets nor use them as collateral. Only

the state can enjoy the full benefits of ownership, but individuals can gain favorable access to the use of assets through political influence. Generally, the resource allocation is in accordance with rank. Under this system, people who have greater authority have greater powers over resource use (Lai, 1997).

In socialist China, property ownership was not clearly defined. It was a popular saying in China that different properties seemed to be the stuff in the different pockets which belonged to the same owner. The nominal owner of all property was the public. However, it was the government and CPC who really controlled the property. Therefore, some socialist officials believed that it was unnecessary to distinguish property rights among different entities, since all property belonged to the state. Consequently, property rights were usually vaguely defined among economic entities. The other outcome was that the property owners did not prefer to resort to the court system when they had conflicts on property rights. However, the externalities were not so apparent under strict central government control.

The idea of the public property ownership originates in Marx's labor theory of value that rewards must be proportionate to labor inputs, and profits must be "reasonable." To achieve it, capital gains must be restrained. Therefore, private property ownership is seriously restricted and transferability of property has been forbidden in China.

5.0 PROPERTY RIGHTS IN ECONOMIC REFORM

Before economic reform, the Chinese economic system was a carbon copy of the Soviet type economy. The state played a paramount role in the society. In the past fifteen years of economic reform, China has adopted a way of gradual transformation which emphasizes invigorating the backward economy into efficient and competitive one. A more centralized planning system has been transformed to a more decentralized one (Ma, 1997).

The current system is somewhat like what Steven Lewis phrased “Market-Preserving Federalism (Lewis, 1997).” It introduces market mechanisms while retaining socialist ownership (Ye, 1991). It was believed that market mechanisms could bring about competition and efficiency, while socialist ownership would maintain the basic identity and positive features of socialism (White, 1993). Although the Chinese government did not intend to completely privatize some of the state-owned property, the state was willing to undertake comprehensive property rights reform as an inseparable part of the general reform project. The reform is conducted by reassigning the rights to use the state owned property. Although the state still holds absolute ownership, the right to use has been transferable, or at least, or has been subject to lease out for a certain time (Walder, 1994).

As a result of this policy, enterprise autonomy has been gradually increased. More competition has been introduced into the system. General efficiency of industry has been steadily improved. China has enjoyed constant and substantial increases in terms of both the economic scale and the living standard of the common people. Recent World Bank statistics shows that China has been one of the fastest growing economies in the world since economic reforms began in 1978. In this chapter, institutional changes of property rights system during China’s economic reform will be the major focus.

5.1 INSTITUTIONAL CHANGES TOWARD THE PRIVATE SECTOR

Marxism denounces private property economy and identifies it as the source of “exploitation.” After the 1949 Communist Revolution, eliminating the private economy had been a national policy for over 30 years. However, the adoption of the 1982 new Constitutional Law and the following amendments symbolizes the institutional changes towards a private economy. The 1982 Chinese Constitution *Article 11* states:

“The **individual economy** of urban and rural working people, **operating** within the limits prescribed by law, is **a complement** to the socialist public economy. The state protects the lawful rights and interests of the individual economy. The state **guides, assists, and supervises** the individual economy by **administrative control** (emphasis added). ”

For the first time since the Revolution, the individual or private economy was recognized. However, the private economy is still much inferior to the socialist public economy and subjected to much governmental control. The 1988 Constitutional Amendment goes further in recognizing the private economy. *Article 11* of Chinese Constitution includes a new paragraph, which reads:

“The state permits the **private sector** of the economy to **exist and develop** within the limits prescribed by law. The private sector of the economy is **a complement** to the socialist public economy. The state protects the lawful rights and interests of the private sector of the economy, and **exercises guidance, supervision, and control** over the private sector of the economy (emphasis added). ”

The 1988 Constitutional Amendment grants the private economy the right to develop. Nevertheless, the private sector is still inferior to the state sector.

In March 15, 1999, China’s parliament gave a boost to the private sector by approving a new Constitutional Amendment and giving the private sector a special place in the Constitution. Elevating the constitution’s description of the private sector to an “important component” instead of just a “component” to the socialist economy will

allow the gradual removal of discriminatory legislation. The Amendment also recognized the important contribution of the private sector in creating jobs and underpinning the slowing economy. The constitutional amendments will pave the way for legislative changes, removing discriminatory hurdles and allowing the expansion of entrepreneurial activity in China, which will help private housing investments. However, the effectiveness of the amendments toward the urban housing sector will be limited in the short run, because there is still a big question mark on the legal status of private property rights in the socialist frame.

5.2 INSTITUTIONAL CHANGES OF PROPERTY RIGHTS DURING ECONOMIC REFORM

During economic reform, the property rights system has experienced a fundamental transformation. Land ownership is always one of the most sensitive issues in economic reform in China. The right to transfer property rights is an integral part of land ownership. The 1982 Chinese Constitution *Article 10* states:

“Land in the cities is owned by the **state**. Land in the rural and suburban areas is owned by **collectives** except for those portions which belong to the state in accordance with the law; house sites and private plots of cropland and hilly land are also owned by **collectives**. The state may in the public interest **take over** land for its use in accordance with the law. **No organization or individual** may appropriate, buy, sell or **lease** land, or unlawfully **transfer** land in other ways (emphasis added).”

This provision shows that the central government has significant power over both private persons and individual localities. Under the 1982 Constitution, no organization or individual has the right to transfer property rights. This is changed with the adoption the 1988 Constitutional Amendment. The fourth paragraph of *Article 10* of Chinese Constitution is amended as follows:

“No organization or individual may appropriate, buy, sell or unlawfully transfer land in other ways. The **right to the use of the land** may **be transferred** in accordance with the law (emphasis added). ”

Applied in 1986, China's first National Land Use Regulation Law prohibits the transfer of land property rights in any forms between individuals and localities. In the 1988 Land Use Regulation Law amended *Article 2* as follows:

“ ... The right to the use of the state land may **be transferred** in accordance with regulations provided by the State Council. The state land may be used with just compensation, which is regulated by the State Council (emphasis added). ”

This provision can be interpreted as legalizing the transfer of land use rights with restrictions. Although land ownership is still a non-transferable good, the government has adopted a flexible regulation which tries to separate the right of use and occupation from absolute ownership. This makes for land with commercial value. The concept of “*responsibility contract*” is adopted to property use rights from property ownership. It is similar to the granting of private user rights through a state lease of land. The duration of the lease may be some number of years or, theoretically speaking, it may be in perpetuity. Although absolute property ownership may not be transferable under the law, the right to use and benefit are exclusively assigned to the lessees who are protected by appropriate law. The right to transfer or sell the leased property may take the form of subletting. Besides the expenditure for obtaining the use rights through leasing, the lessee has to pay a rent which may be considered as a property tax. In ancient China, there is no significant distinction between “rent” and “tax,” since all the land theoretically belongs to the emperor. Therefore, the concept of separating property rights perfectly fits into China's traditional political frame (Cheung, 1986).

5.3 THE REGULATION OF LAND LEASING IN THE HOUSING SECTOR

Having one fifth of the world population, the Chinese government faces a significant challenge in providing sufficient shelter for the public. Therefore, the government has given special preference toward the housing sector during economic reform. “Interim Regulations of The People's Republic Of China Concerning the Assignment and Transfer of the Right to the Use of the State-Owned Land in the Urban

Areas,” implemented by the State Council in 1990 and reaffirmed in 1995, is China's first national regulation on state land leasing. The regulation *Article 12* states:

“The maximum term with respect to the assigned right to the use of the land shall be determined respectively in the light of the purposes listed below: 70 years for residential purposes.”

To compare with other purpose of land use, land leasing for residential purposes has been granted the longest length.

Although China is ambitious in developing a fully commercialized residential property market which it hopes will become the major force in driving further economic expansion, it still lacks a complete and formal institutional framework to implement such a move. Nevertheless, property rights in China may be more credible than they appear to be, because part of the stability of China’s reforms relies on informal institutions, which incorporate social norms and conventions into marketization. With the support of the informal institutions, China attracts a high level of investment in an environment without a formal, legal basis for secure property rights (Lewis, 1997). However, it is doubtful that current economic development is self-sustainable without further clarifying and ensuring property rights. The advantage of housing reform in Shanghai over the other parts of China in terms of clarifying property rights provides the best example. Shanghai as one of the largest metropolitans in China is always the most forward runner in economic reform. Their successful story in housing reform is heavily relied on recognition of a formal property rights system. From this perspective, a further step of housing reform very much relies on a robust legal framework and a formal property rights system.

6.0 EXPERIENCES FROM SELECTED POST-SOCIALIST COUNTRIES

China's economic reform differs widely from recent events in most post-socialist countries. First, China's urban reforms have remained partial and somewhat less consistent, without a significant transformation of resources from state enterprises to the hands of private owners. Second, avoiding the massive uncertainties by instant transition in most other post-socialist countries, the Chinese economy has grown rapidly (Rawski, 1994). Third, compared with most other post-socialist countries, the state still maintains its leading role in economic reform. As opposed to the paths taken by most other post-socialist nations, China adopts a reform policy in which economic reform in China takes precedence over political reform and introduces competition into the economy before conducting privatization of state property. China's reform is widely recognized as a more rewarding way to transform the state-socialism (Wu, 1994). Because similar economic reform is happening in most East European countries, their experiences of housing reform could be very valuable in terms of providing with alternative approaches for China's urban housing reform.

Before reform, most economic systems in Eastern European countries were heavily based on a planned economy, with a centralized system of decision-making concerning resource allocation, combined with a low degree of democracy in the political system. A private rental sector was virtually nonexistent. The nationalization of private property after the Second World War has literally wiped out the private housing sector in most East European countries. Most countries tried to limit home ownership by strict regulations, such as zoning and making construction of private homes within built-up urban areas illegal (Turner, 1992). In the early 1989, situation on the housing market was comparable to the other sectors of society, which was extremely unsatisfactory in terms of space standards and housing quality. These situations paralleled what happened in China before economic reform.

To be sure, there are also physical differences. Firstly, the sizes of the two different regions are quite different. China is a much larger country than any individual

East European countries. Secondly, the level of economic development in China was weaker than that in most East European countries in terms of GNP per capita. World Bank data shows that 1997 GNP per capita in Hungary, Bulgaria, and China is USD4,510, USD1,170, and USD860 respectively (World Bank, 1997). Thirdly, the problem of urban housing shortage in China was much more serious than that in most East European countries in regard to the average housing floor area. To compare with the average living floor space per individuals in Bulgaria, which was 14.1 square meters in 1989, that number in China was only 6.5 square meters (Statistical Reference Book, 1989). Fourthly, in most cases of East European countries, property was left in the hands of local political authorities, which were responsible for the maintenance of the property and allocation of dwellings. In China, more public housing was controlled by the State Owned Enterprises, which were under the direction of state government. To compare with the State Owned Enterprises, local authority has fewer resources in terms of housing inventory.

The economy of Bulgaria is one of the least developed among all East European countries. The level of industrialization is very comparable to that in China. At the same time, the economy of Hungary is one of the strongest among the post-socialist nations. The overall patterns of reform between China and Hungary are strikingly similar (Wu, 1994). Since Hungary was the predecessor in economic reform, China has established many transitional policies which were “borrowed” from Hungary. To facilitate this comparative analysis, Bulgaria and Hungary are selected as the main foci of this comparison research.

6.1 EXPERIENCES FROM BULGARIA

Besides those similar situations in East European countries, Bulgaria has its own specific housing problems during economic reform.

6.11 THE ECONOMY

The poor performance of the economy is commonly identified as the most significant problem, which has an exceptionally unfavorable impact upon housing reform. The annual income for 1988 increased 2.4 percent and preliminary data for 1989 shows a decrease of 0.4 percent (Koleva and Dandolova, 1992). In 1990, GDP declined by 11.3 percent (Frydman; Rapaczynski; Earle et al., 1993). Without the support of the economy, it is difficult to implement reform policy effectively. Despite the adoption of Decree 56 which was intended to modernize and privatize the economy, there was no incentive within the bureaucratic system to make the reforms work. The lack of effective political leadership has also slowed the process of the state's disengagement from the productive sector. As a result, Bulgaria became one of the slowest countries in Eastern Europe to move towards personal and economic freedoms at the end of 1980's (Koleva and Dandolova, 1992).

6.12 BULGARIAN HOUSING SYSTEM

It is a quite interesting phenomenon that Bulgaria was one of the few countries which kept private ownership under its socialist regime in terms of both housing and land. The Bulgarian government, while preserving its rights over the land, permits and encourages private ownership of housing to a limited extent. Unlike China in regard to its public rental housing system, the traditional pattern of housing in Bulgaria has been based on individual ownership, rather than rental. Over 80 percent of Bulgarian housing was in private hands at the end of 1980's. The private owners also had the land ownership (Jonsson, 1992). However, housing construction was concentrated in the public sector because of Decree 1958. The investment policy and housing construction were mostly government monopolies. Private housing construction had declined to 23.3 percent in the total housing construction in 1981 (Koleva and Dandolova, 1992). As a result, there was no second level housing market. Without a second level housing market, the transformation of home ownership was difficult. Therefore, home ownership was only partially granted to the owner. Arranged by the government, there

was no competition among the public homebuilders. The majority of the newly built houses could not meet the needs of the residents. Low efficiency was also inevitable and prevalent in public housing construction (Koleva and Dandolova, 1992).

6.2 EXPERIENCES FROM HUNGARY

After years of unsuccessful attempts to revitalize the Hungarian economy, the government announced that the new goal of economic reform was the transition to a capitalist market economy, rather than the further pursuit of a socialist market system at the end of 1990's. As a successful example of transition to a market oriented economy, Hungarian economic transformation began in 1968 (Frydman; Rapaczynski; Earle et al., 1993). Housing privatization and a turn toward private housing property in Hungary took place well before the collapse of the socialist regime. Therefore, it would be a mistake to attribute all the market processes and all the private property seen today to the short-term post-socialist transition (Bodnar and Borocz, 1998).

6.21 HUNGARIAN HOUSING SYSTEM

There are three main forms of housing provision in Hungary's housing system: state provision, self-provision, and market provision. The last two can be considered as private forms of housing construction. State provision has not existed since 1990. During economic reform, state owned housing was transferred to the local governments, which became the owners of public housing at the end of 1990. Most of public housing was privatized by the end of 1990 (Hegedus and Tosics, 1992). One of the major lessons learned from the Hungarian case was that the privatization of housing was implemented too rapidly, and new owners were not charged sufficiently.

7.0 CONCLUSIONS:

Having analyzed the history of public housing reform in China over the past two decades, as well as property rights issues in Western countries, and the constructive experiences in selected post-socialist countries, it is clear that, several policy approaches need clarification to ensure an adequate urban housing reform, as follows:

1. Strengthened formal institutions and a formal property rights system are the foundation of further reform. Although the current Chinese economic system is partially reliant on informal institutions, including norms and conventions, a formal, legal basis for secure property rights is necessary for further reform. Property rights are informal when legal institutions are weak or incomplete (Weimer, 1997). China's Confucian tradition suggests reliance upon informal institutions rather than the transparency that goes with the rule of law (Pye, 1998). In the old socialist regime, property rights were usually vaguely defined among economic entities. These have created an urgent need for new rules in the market economy structure. Countries with emerging economies like China must clearly define property rights so their citizens will gain an institutionalized basis in the success and growth of their economies. Formal institutions and a well-defined property rights system are fundamentally important to the establishment of functioning markets. As one commentator writes, "Mass privatization is not viable in the absence of the unequivocal creation of property rights (Lieberman, 1995)."

2. Steady economic growth is critical and provides incentive for housing reform. Providing a better living standard to the general public is the major objective of the government in the reform. Currently, China is still among the lower-middle-income economies (World Bank, 1997). The experiences from Bulgaria show that housing deficiencies can not be effectively tackled without the support of a robust economy. To achieve continuous economic growth, a stable political environment is necessary.

3. The experiences from economic reform in post-socialist countries also show that effective political leadership is necessary in terms of carrying out housing reform

policy. Therefore, a stable and effective central authority is necessary to ensure adoption of reform policies. At the same time, the central authority should be checked and balanced to avoid its power to be abused.

4. Decentralization of the central power is necessary. The past central decision making process is overcentralized. The state has control over too many local issues which the local authorities are more capable of handling. Housing policy is among those issues which the local authorities should have stronger voices. China is a huge country and, regional diversification is quite significant. The regional authorities should be delegated more legislative power on local issues in order to meet the need of the local residents. Instead of direct intervention, the central government should play a role of guidance on major policies.

5. More citizen participation through the decision making process is necessary. China is a country with the tradition of a top-down decision making process. The general public do not have strong initiative to involve in the political process. During reform, the society has to endure some hardship. Only when the general public have the channel to understand the risk and the benefit of economic reform, they can participate in the reform more positively. Only when the general public become a part of the decision making process, more public support could be generated, and the reform could be carried out more smoothly. This is because people tend to take more responsibility of the decision they make.

6. More policy analysis and research on housing development would be beneficial to strengthen the effectiveness of transformation policy and avoid any unnecessary hardships. This is especially true during economic reform when new problems emerge all the time. Systematic research on urban housing policy and property rights issues is far from sufficient in China. Therefore, more research on housing policy is extremely important in providing alternative policy choices.

7. A clear overall blueprint for a final economic transition is important. Deng Xiaoping maintained ultimate control over China's policy decisions from 1984 until his death in 1997. It is urgent that the new leaders devise a new agenda and objectives for the transformation. Without clear objectives, the new leaders may run the risk of applying counter-effective policies (Walder, 1994).

8. Privatization is necessary. The previous period of Chinese economic growth relied on marketization instead of privatization (Wu, 1994). The first period of the outstanding economic performance partially relied on the marketization. However, the marketization without privatization has shown some strong deficiencies. Privatization is a necessary step to nurture a mature market economy. As a more efficient way of organizing the provision of housing services, private ownership of housing has to be fully recognized by the government. In privatization, one major hurdle will be the legality and the status of private property ownership in the socialist framework. Ideological barriers still exist in the process of recognizing private ownership. Although the separation of ownership and use rights poses no great barrier in property ownership, some technical problems, such as how to evaluate depreciating property value, are still waiting for creative solutions (Chuang, 1986).

9. It takes time to nurture formal institutions and build a formal property rights system, which suggests that a smooth transition instead of a sudden one is a more beneficial approach for China.

10. The build up of a second and a third level of housing markets needs special considerations. After years of waiting, an increasing number of private homeowners have obtained the rights to sell their home. A large volume of private housing will come into the second level housing market. A successful housing market will provide incentives to the prospective private homeowners.

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Appendix 1. THE IMPORTANT EVENTS IN CHINESE URBAN HOUSING REFORM SHOWN IN THE PAPER

- Dec., 1948, the Decision On The Issues of the Urban Housing
- Oct. 1, 1949, the foundation of the People's Republic of China
- 1952, the idea of "Collecting Rent to Support Public Housing" in "To Improve The Management Of The Urban Public Housing"
- 1958, the socialist transformation, change the private property ownership into public ownership
- April 2, 1980 Deng Xiaoping's speech on urban public sector housing to central government leaders:
- April 17, 1982, the State Council issued "the Reply of The State Council Toward the Issues in Selling Urban Public Housing"
- Dec. 4, 1982, the adoption of the 4th Constitutional Law
- June 25, 1986, the adoption of China's first National Land Use Regulation Law
- Jan. 15, 1988, China the first national housing reform conference
- Feb. 25, 1988, the State Council issued "Implementation Plan for a Gradual Housing System Reform in Cities and Towns," for the State Council's Housing Reform Steering Group
- June 7, 1991, the State Council issued "the Resolutions of the State Council about Actively and Appropriately Carry out Urban Housing Reform"
- July 18, 1994, the State Council issued titled "the Decisions of the State Council on Deepening Urban Housing System Reform"
- July 1998, the State Council issued "the Resolutions on Continuing Urban Housing System Reform, Accelerating Housing Development"

My name is Yu, Zhou, and I was born in Beijing, China. Currently, I am a Master's student in the Department of Urban Affairs and Planning at Virginia Polytechnic Institute and State University. I got my bachelor degree in Architecture at Northern Jiaotong University, Beijing. Almost all my earlier years are spent in Beijing. The graduate study at Virginia Tech is my first time to be so far away from home. I love Virginia Tech and Blacksburg so much that I consider here my as second home. I will graduate in August of 1999 as a MURP, and plan to continue my Ph.D. study in planning at the University of Southern California at Los Angeles.

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 - ❖ **Internship Assistant Architect**
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 - ❖ **Architectural Internship**
Beijing Consulting & Engineering Design Studio of Ministry of Light Industry of PRC, Beijing 07/1994 - 02/ 1995
- Awards**
- ❖ 14th Virginia Tech **Annual Graduate Student Research Symposium Award**
 - ❖ Virginia Tech **Graduate Assistantship**
 - ❖ **Nomination Award** for 1997 Hongkong Transformation International Architectural Design Competition
 - ❖ **First Place** at 3rd Northern Jiaotong University Debate Competition
- Social Experiences**
- ❖ 9th **Executive Vice President** of Association of Chinese Students and Scholars VT-ACSS (Virginia Tech largest international organization)
 - ❖ **Representative** in CISO (Council of International Students Organizations)
 - ❖ **Member** of American Planning Association
 - ❖ **Associate Manager** of Rihan Design Co. in Charge of Inter-Company Relations