
HOUSING THE URBAN POOR IN SOCIAL HARMONY? : LOW-RENT HOUSING POLICY IN THE CONTEMPORARY CHINESE CITY

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Abstract:

As a part of comprehensive economic reform, China's urban housing has been transformed over the last 25 year. With greater marketization and commodification, the problems of housing shortages and poor conditions have been, however, diminished. Nationwide economic reforms have produced different social classes: a high income group, a salary income group and a low income group. The growing conflict between rich and poor is reflected in the housing sphere, especially in the recent ten years. On one hand, the rich could speculate in the housing market and reap substantial benefits. As a result, commercial sector house prices have been driven up to unsustainable levels. On the other hand, most middle and low income families could not afford to purchase a property. At the same time, peasant workers have joined the ranks of the urban poor, which has made the situation more complex. Under Hu-Wen's leadership, 'building a harmony society' has become a key objective- the most important task of the Chinese government since 2003. China is at a historic point, and the government has made the decision to achieve a better balance between

economic and social development. Against this background, Chinese welfare housing policy is the one of the key elements required to build a more harmonious society. This paper will try to review the historical process of the Low Rent Housing Policy issues and evaluates the current Low Rent Housing Policy, which is one main component of welfare housing policy, in contemporary big cities of China.

Introduction:

Before 1980, China's housing provision was dominated by socialistic and work unit ideology. This housing provision system in Chinese city area mainly involved a mixture of two components: socialist ideology and welfare philosophy (Zhao, 2003). The main target of the socialistic ideology was to eliminate the defects of modern capitalist society, such as class exploitation and conflict, social inequality and social malaise. In order to get this aim, the private property ownership must be destroyed. Nationalization and socialist transformation was as the main method. Under this ideology, most private housing in urban areas in China was transformed into public ownership in the 1950s, and subsequently, public housing became the predominant form of housing provision in Chinese cities (Chen, 1996, 1998; Wang & Murie, 1996; Zhao, 1997). In general, the housing system in urban areas of China during this first period can be regarded as an unsuccessful experiment. Public ownership of urban housing essentially discouraged individual investment and resulted in housing shortage, low quality and low maintenance.

Since the introduction of major housing reforms, there has been a growing body of research on this topic. The early studies mainly offered a general introduction and description of the Chinese urban housing system and the process of reform (Wang, 1995; Wang & Murie, 1996; Zhao, 1997). After 1998, when the Chinese

central government accelerated the reforms, research began to address specific more issues and new problems faced by the ongoing housing reform process.

The reform of the Chinese housing system is also a key part of a more deep seated social and economic transformation. On one hand, it is a vital element of national economic reform. On the other hand, it is also a key element of a wider social reorganization, seeking to redefine and reshape the pattern of benefits and rewards from housing reform. For these reasons the housing reform process has accelerated since 1994 aiming to establish widespread home ownership and recapitalize the current housing stock by either market or quasi-market means. In doing so, much has been achieved but new problems have also emerged.

From the late 1990s, the rising social inequalities in Chinese cities have attracted increasing interest. For example, Wang and Murie (2000) and Zhang (2001) have focused on the vertical inequities resulting from the failure to provide housing for the urban poor or to the persistence of the ranking system for allocating housing. New horizontal inequities stemmed from the persistence of the work unit system of housing provision. Prior to the housing reforms, there was unfair differentiation in housing conditions among different work units. But these inequalities were not significant due to government intervention. However, in the reform era, the differences in economic power among work units have increased because of the introduction of market competition and the withdrawal of the government from the economic sector. Some powerful work units, especially those in monopoly positions, have earned considerable profits and constructed high quality housing for their employees. However, other work units have been less successful and, consequently, have been unable to improve their employees' housing conditions. For instance, someone on an average income may enjoy relatively high quality housing because of the economic success of her or his work unit. But someone else employed in a small work unit or in private enterprise, even if self-employed, may earn a good income but cannot benefit from his work unit or afford commodity housing.

Chiu (2001) and Zhao (1997) have argued that there is currently a dual housing system in China: privatized public housing and commodity housing, with different prices, rents, and delivery patterns. They, then, conclude that Chinese urban housing markets have not matured because most developers are state-owned and few ordinary urban residents are able to afford commodity housing. Given this situation, it is argued that the government should take a more proactive role rather relying solely on the market to solve the housing problems of the disadvantaged. A market-oriented policy does not mean that the government should relinquish all housing responsibilities. In this context, Wang (2000) and Wang & Murie (2000) have also examined the adverse impacts of China's urban housing reforms on the urban poor and the social and spatial implications.

This paper aims to explore current housing policies against a new social background. In doing so, the paper will:

- Identify the housing problems of the urban poor
- Assess the new housing policies against a changing social background
- Evaluate the potential impacts of these new housing policies and the extent to which they are likely to be successful in achieving their goals

The Housing Market and Urban Poor:

1 The Emerging Urban Poor

Economic reform has brought many changes to Chinese cities. One of most important changes concerns new forms of social stratification. Before the 1980s there was little differentiation in the economic situation of most urban families. As Chen (1998) has indicated, 'Although the pre-reform urban population was generally poor, there was no obvious concentration of poor people or slums in major Chinese cities'. The rebuilding of the economy has, however, resulted in greater variation in income levels and more diverse social groupings in Chinese

cities. Several major factors have contributed to these new divisions (Wang, 2000).

First, following the economic reforms, a new social group related to private businesses is emerging. The government cannot monitor and control income levels in this sector in which some enjoy a standard of living which would have been unthinkable only a few years ago. These successful new entrepreneurs now represent some of the richest people in contemporary China. However, not all households in this sector are well-off. Many earn very low wages and receive few benefits.

Second, the restructuring of state economy has resulted in more varied income levels in the public sector. A state-owned enterprise which performs well can provide its employees with better pay and services (i.e. pension, health subsidies). But most state-owned enterprises have not fared well in the transformation from a state to a market economy. Many of their employees have been laid off (*xiagang*)-although official documents do not record them as unemployed. According to some researchers' estimates, some 30 per cent (24 million) of total state sector employees were laid off in 1997 (Zhu, 1998).

A third factor is rural to urban migration. Reliable statistics in this area are difficult to obtain but it has been estimated that about 60 to 80 million rural labors are working in cities. They occupy most of the poorly paid temporary jobs. These migrants are usually called the 'floating population' (*liudongrenkou*) or 'peasant worker' (*nongmingong*). As the Household Registration System still operates, peasant workers are classified as extraneous people. They are excluded from almost all city welfare systems including the welfare housing system.

The term 'urban poor' was hardly used in major Chinese Government documents until the end of the 1990s. An alternative term, the 'medium to low-income groups' was preferred. Central government did not define 'medium to low – income', which depends on local government calculations.

The above analysis indicates that there are two distinctly different groups of the urban poor: the poor among the official urban residents (the official poor) and the poor among rural to urban migrants (the unofficial poor) (Wang, 2000). In the process of economic reform, a large number of people who were employees of state owned enterprise have been laid off. These persons were mostly urban residents and have become the official poor. These households experience many difficulties including housing problems. The unofficial poor, the peasant workers, have become a substantial part of the urban labor force. They do not qualify for most welfare benefits, are among the lowest paid urban residents and represent a serious and growing housing problem for modern China.

2 The Gap between Rich and Poor in the Housing Market

China's urban housing market is made up of three tiers (Griffiths, 1998). Stated simply, commercial or 'commodity' housing is at the top of the new reformed market. This level consists mainly of luxury units and caters for high-income and higher middle-income families. At the opposite end of the housing market is welfare or 'benefit' housing. It is usually called Low-rent Housing (LRH). This type housing is owned and maintained by local governments and leased to tenants at nominal rents. Under LRH policy restriction, this type of housing is available only to people who are very low-income local residents. Peasant workers, unofficial urban residents, cannot apply for LRH. Regarding China's low middle-income and normal low-income groups, they cannot afford to buy commercial housing and are ineligible for LRH. To deal with this element of housing demand, the Affordable Housing (TAH), which is at the middle of housing market, has been in place nationally since 1998. TAH is a type of housing which some elements of welfare housing. Further details about LRH and TAH are provided later in the paper.

Commercial housing was intended primarily for sale to members of the foreign business community when it first came into housing market in the early 1990s. However, the newly emerging urban rich became to the main consumers of

commercial housing in the late 1990s. Speculation was unavoidable and drove commercial house prices to unsustainable levels. The housing market crashed in 1993 and rebounded two years later. From 1995, house prices have kept rising, especially in the last four years. As Beijing Municipal Statistics indicate, the average price of commercial housing throughout Beijing from January to July in 2006 was 4700 yuan (about \$588) per square meter, although it was as high as 20 000 yuan in the urban core. Some new neighborhoods beside the urban train lines also increased to about 10 000 yuan per square meter. In the same period, average annual personal incomes were 36 000 yuan. Since most households include two wage earners, the average household income is roughly 72 000 per year. At 9 000 yuan per square meter, one 80-square meter commodity apartment would be priced at 640 000 yuan. Thus, a typical working family would have to spend 10 years' total income.

The Affordable Housing (TAH) was first introduced as *Anju Project* in 1995. The *Anju Project plan* originally called for the completion of 25 million square meters of new affordable housing each year between 1995 and 2000. It would provide 150 million square meters in total over 5 years, or just 5 per cent of China's basic housing needs over the period (Rosen, 2000; Yang, 2003). However, only about a half of 232 Chinese cities operated this program, and construction was far behind schedule in most of these cities (Rosen, 2000). The price of TAH apartments, 30-40 percent below commercial rates, also varied considerably around the country, based on differences in commercial prices. Poor locations and shoddy construction deterred some low middle-income families and most normal low-income families could not afford the apartments, even at discount prices. Although there were limitations for families to purchase TAH, they were not strictly imposed. Many of those who eventually got TAH were high income households seeking speculative opportunities. As a result, the TAH's prices were driven up. The actual situation was that the TAH's prices could be close to the average prices of commercial housing.

The governments' initial purpose of building LRH was to help a very small section of very low-income families. State-owned enterprises have been allowed to sell their apartment units since 1994. Eager to get rid of the financial burden this housing represents, state owned houses and apartments were almost all sold off. Local municipalities also have very limited numbers of apartments to be rented as LRH. At the same time, most LRH supplied by local government were generally cramped and poorly maintained, and often did not even have their own kitchen and bathroom units. As there were not enough state owned apartments, local governments introduced an alternative form of LRH. Very low-income families were provided with subsidies to enable them to rent an apartment in the market. The level of subsidies, however, was generally insufficient to enable them to do so. The result was that families could not find an appropriate apartment and lost their LRH subsidies. According to Yang (2007), at the current time only one new neighborhood of LRH has been built in Beijing. It only contains about 400 apartment units. When the LRH policy was issued in 1998, there were a total of about 500 000 families who were covered by LRH nationally. There are still more than 10 million families waiting for LRH. And of the initial 500 000 families, only 70 000 families were living in LRH. The others could only get LRH subsidies.

The increased gap between the rich and the poor has been seen by many researchers as the most important challenge for the Chinese Government. Many have called for greater support for the urban poor in order to maintain social stability and high economic growth. However, as indicated above, house prices have risen beyond the affordability levels of normal middle-income families and the current welfare housing policy, both TAH and LRH, has not effectively reduced the gap between the rich and poor in housing and helped low middle-income class and low-income groups to improve their poor living conditions.

The New Social Background and Current Housing Policies

1 New Social Background

After more than 25 years of social and economic reform, China has achieved substantial success in the economic field. Social development has, however, been less successful.

The Fourth Plenary Session of the 16th Central Committee of the Communist Party of China (CPC), held in September 2004, first explicitly referred to the need to 'put building a harmonious society in a more prominent position'. Speaking to a gathering of provincial leaders in February 2006, the CPC General Secretary Hu Jintao urged building a social justice guarantee system based on 'equal rights, equal opportunities, fair rules and fair distribution'.

Building a harmonious socialist society was also high on the agenda of the Sixth Plenary Session of the 16th Central Committee of the CPC, which opened at the beginning of October 2006 in Beijing China. The meeting deliberated on a draft of the 'resolutions of the CPC Central Committee on major issues regarding the building of a harmonious socialist society'. A harmonious society is a catch-all phrase that represents a new emphasis on achieving a more egalitarian society, better health care and education, more environmental protection, improved public order, and a crackdown on government corruption.

'There are many conflicts and problems affecting social harmony', according to a statement issued on 11 October 2006 at the close of the Communist Party's annual four-day plenum. 'More efforts shall be made to coordinate economic and social development, promote social equity and justice', it continues. Dealing with income inequality, reducing the gap between the rich and poor and correcting local government's role in building a social security system will be the most important tasks which should be addressed in the next reform stage.

It is evident that Chinese policy-makers have realized that improper handling of the current social changes could lead to economic stagnation and social instability.

And after almost three decades of runaway development and double-digit economic growth, the new focus on a greater balance between social development and economic growth suggests a major shift in priorities. There is little doubt that the central government will now place more emphasis on establishing an effective social security system, including health care, education and housing. This is now seen as an important guarantee of keeping a stable society and realizing China's long-term development goals.

2 The Affordable Housing (TAH)

Affordable housing is one of the most important parts of the housing security system. Under this form of housing provision, the government encourages the building of houses affordable to low middle-income and low-income groups by providing cheap or free land or tax rebates for developers.

Affordable housing refers to commodity housing with an element of social subsidy, and has the features of economy and applicability. Economy means the housing price is moderate and affordable for middle and low-income households compared with the market price. Applicability relates to aspects of housing design and building specification and the maintenance of good housing standards. Affordable housing is essentially general housing constructed by the state government to address the housing problems of middle and low-income households. Affordable housing cannot be distributed generally because of its social welfare role.

Local governments have actively promoted the construction of affordable housing and have made the following achievements:

- ◆ Met the requirements of moderate and low-income households to purchase houses. The cumulative total floor space completed reached 470 million square meters in 1998-2005, which improved the housing conditions of over 5.7 million moderate and low-income households.
- ◆ Promoted city residents' housing consumption. The accumulated outlay

that city residents spent on purchasing and constructing affordable housing (including funds for cooperative house-building) exceeded 500 billion RMB in 1998-2005.

- ◆ Build up a multi-level market supply structure of real estate and tried to stabilize the prices of commodity housing.
- ◆ Alleviated the conflicts between old city reconstruction and housing demolition. Over 30% affordable housing in Beijing, Qingdao, Nanchang, etc. are used to resettle the residents after demolition.
- ◆ Improve the city environment. Generally, affordable housing has always been constructed in urban and suburban locations. The local governments have organized enterprises to operate in relation to scale and construction type in sympathy the surrounding environment and urban function.

However the system is riddled with defects particularly as investment in affordable housing has dwindled in recent years. In 1999, affordable houses accounted for 16.6 percent of the total investment in new houses. But the figure had dropped to less than five percent by 2005.

The management of affordable houses also needs to be improved. Currently many high-income earners are buying affordable houses, due to the lack of a comprehensive personal credit record system and poor enforcement of income evaluation standards.

There are some problems coming with the policing of TAH. Initially, the development of affordable housing was aimed at the so-called medium to low-income groups, or the salaried groups. These groups mainly included public sector employees of government departments and public sector agencies and institutions. They are the Chinese emerging middle class. The subsidies associated with this type of housing were not available to the real urban poor. These large estates were designed for those who had a steady income and had access to a mortgage either through commercial banks or the provident fund management centers. They were mainly for the formal economic sectors. The

poor have not been explicitly excluded from these types of housing, but most of them cannot afford to buy.

However, the development of affordable housing over the last ten years, shows that the housing is not really affordable to most of the target groups- lower-middle and low income families. In Beijing and Shanghai, for example, the average price for the affordable housing is around 4000 yuan per square metre of construction floor space. Even the middle-income groups have found this too expensive. As the commercial housing is expensive relative to incomes, affordable housing projects have been popular for the average household which wants to improve its living conditions. They typically need support from three sources to finance the purchase: individual savings, employer's subsidy and a mortgage from the provident funds. Some may also require an extra mortgage from commercial bank. For the unemployed and those employed by the informal sectors, it is impossible to buy these houses only relying on individual savings. For affordable housing units sold in 2004, the average price per square meters was 3,202 yuan. Therefore, although they are priced substantially below market rates, so-called affordable housing remains out of reach for most households.

Lower-middle and middle-income households, therefore, face a very difficult time purchasing an affordable home under standard mortgage assumptions. As such, affordable housing is not an effective vehicle for encouraging the purchases of new units by lower-middle-income households. While some of these might manage home purchase if they have large cash reserves or access to funds through friends and relatives, on an ongoing basis 'affordable housing' is not affordable to its intended beneficiaries and therefore unlikely to address their unmet housing needs or to substantially advance the development of China's incomplete housing market.

At the same time, the eligibility system does not work effectively. Almost all households, top and upper-middle, can find opportunities to purchase more than one affordable housing unit. According to the Beijing Municipal Bureau of

Statistics (Third quarter 2006), 48% of affordable housing units are used as investment and rented out to others such as migrant workers. The price of affordable housing, which was built around 2001, has increased by nearly 50%. It is not surprising therefore that many affordable housing developers and top income consumers regard this welfare housing as a high profit and low risk investing field.

There are various problems with the way the affordable housing policy has been implemented in relation to design, location and building standards. But the main problem is that it is, in the main unaffordable for the mass of lower-middle and low income households which are its target groups. This requires a serious rethink by policy makers.

3 Low-rent Housing (LRH)

Another form of welfare housing provision is the low-rent housing designed to help the poorest urban group. Such houses are built or sourced from the market by the government and then allocated to eligible applicants. Authorized applicants can also source houses for themselves and receive rent subsidies from the government. Providing rent subsidy (*indirect way*) and low-rent social housing (*direct way*) are two the main measures through which the government can deliver the social security function in the housing field. It is aimed at the lowest income urban households which have urban non-agricultural permanent residence permits and other households with special needs.

The *Administration Rules on Social Low-rent Housing* were issued by the central government of China in 1999 and signified the establishment of low-rent housing targeted on the poorest urban group and households with special needs. The policy was formally implemented on 1st March 2004 and set out definite regulations on principles, applicants and standards. The rules:

- ♦ Guaranteed level of low-rent housing for the poorest urban households should follow the principle of meeting basic housing need and be rationally determined according to local income levels and housing conditions. In

principle, the guaranteed floor space of low-rent housing for lowest income households should not exceed 60% of local floor space per capita.

- ◆ The guarantee method of low-rent housing for the poorest urban households should give priority to the distribution of housing rent subsidies with housing space and rent deduction as supplements.
- ◆ The eligibility requirements for low-income families, who wanted to apply for LRH, should be established by local and central government based on the local economic and social conditions. Different cities would have different standards.

According to the Ministry of Construction, the government had spent 4.74 billion yuan (593 million dollars) on low-rent houses by the end of 2005, benefiting 329,000 households. But low-rent housing is not available to everyone in China. By 2005, 70 of the 291 cities at or above prefecture level had still not established such forms of housing provision. However, an order from the central government stated that these cities should establish low rent housing systems by the end of 2006. The development of China's low-rent housing system is therefore still at an early stage. The funding channels are unstable, the guarantee methods are imperfect, the coverage is small, and the current policy is falling short of the requirements of practical development.

Affordable housing was not aimed exclusively at low income families. However, in practice, it is evident that even lower-middle income groups and those on average income, the mass of the population, have found it very difficult to gain access to this kind of housing provision. In order to try to cover all groups needing housing assistance, the central government has therefore begun to establish low-rent housing as a more comprehensive welfare element in the housing system. The regulations state that low-rent housing should be available to every poor urban household which receives the local minimum living allowance and whose per capita living space is less than 60 per cent of the local average. This means that low rent housing will only be available to the lowest income families. The problem

is that those ineligible for the low rent housing and unable to purchase affordable housing, a large section of the urban population, find themselves left in the gap between those two forms of provision.

Furthermore, for the low-rent housing policy to work effectively a number of policy improvements are necessary. First, and of particular importance, is the need to find a proper measure of eligibility and to be clear about the kinds and numbers of people with the right to live in social low-rent houses. To achieve this, a more scientific and rational method of differentiating incomes and housing conditions is required. There is currently no clear official definition of 'low-income'. For social security purposes, most large cities have established a poverty line based on household income and municipal governments offer help to those official urban households with an income below the poverty line.

In the early 1990s, the most important factor in income distribution in Chinese cities related to economic sectors. Higher-income households tended to have more people working in the state sector and low-income households tended to have more people working in the collective and other sectors. This is related to the particular nature of the Chinese urban employment structure. In this structure, the well-educated are employed by the state sector with higher salaries and better job security. The less well educated urban residents work in the collective sectors with low or irregular pay and short insecure contracts. After about ten year economic reform, the income distribution has changed markedly. Most people employed in both the state and collective sectors are in the medium to low-income communities. More and more businessmen and private enterprise employees have ascended to the medium to high-income groups. And although there has been a general improvement of income levels in cities, the gap between the rich and the poor has increased during the last decade. Moreover, economic and institutional restructuring has produced high unemployment in cities. Thus, there are many novel features of the current income distribution which are not captured through existing survey methods or official divisions and calculations. The old

eligibility method cannot deal with the new income distribution in Chinese cities and the old public housing system (including low-rent housing) excludes the unofficial poor, such as peasant workers and the peasants who live near the city and whose farmlands have become urbanised.

Secondly, it is also important to establish a mixed and stable source of funding to support this social housing policy. Stable and sufficient funding is the essential pedestal of the system. This is illustrated by the example of Baotou, an industrial city in Neimenggu province. In 2002, it needed 86 million yuan as rent subsidy. Because of its poor financial situation, the municipal government could only afford 0.5 million yuan. This level of subsidy could only help 0.4 percent of low-income households in the city. From this example, it is evident that most municipal governments in China are not in a position of adequately support low-income housing.

In theory, the way to provide funds for low-rent housing includes Provident Housing Fund, the municipal government finance budget, the funds contribution of social charities, and the income from the sale of former publicly owned houses. However, the funding contribution of social charities and the income from sale of aged publicly owned houses is very limited. The PHF appears to be a good way to supply a stable financial source but its impact is limited to the better off urban residents employed by the state sector, particularly the administrative and institutional organizations. These organizations are supported by government funds through its budget. There is no problem in financing the extra cost of the provident fund for their employees but the availability of this funding depends on the performance of the enterprises themselves. It is quite common for state enterprises to set up this system according to government requirements, but only pay a very low rate. Moreover, it takes a considerable period for the funds to accumulate as a major stable source.

Thirdly, the government should ensure a careful balance between the main ways of providing low rent housing. Currently, there are two main ways- low-rent

houses (*direct way*) and providing rent subsidies (*indirect way*). Following Shanghai and Beijing, most Chinese cities took indirect way instead direct way. With China are heading towards a more market dominated housing system, providing rent subsidies seems more suitable. But there are two major disadvantages with this method. First there are not enough private houses available for tenancy and information about the second hand rental market is limited. Second, most people with private properties to rent prefer to let to medium to high-income tenants in order to maximize the rental income. This is especially the case in the major cities such as Shanghai and Beijing where demand for private renting is high from the large influx of small traders, businessmen and employees of joint venture firms

A fourth issue concerns the quantity of housing provided. From 1998 to 2002 some of the principal Chinese cities attempted to develop low rent welfare housing. According to a report published by the State Statistics Bureau, by 2002, Shanghai, Beijing, Chengdu, Nanjing, gave 3366 households, 998 households, 1927 households and 948 households respectively low-rent subsidies. Guangzhou and Fuzhou invested in 660 and 444 publicly owned flats as direct low rent provision. These are the only attempts to provide low-rent and the quantity falls far short of requirements.

There are three potential sources of public low-rent dwellings: former publicly owned flats, which are currently not tenanted; new publicly owned flats built especially as low-rent housing; some flats from charities; and private flats in the social market, which can be tenanted as low-rent housing. However, after nearly two decades of housing reform, very few publicly owned flats available. It is already evident that sufficient properties are not going to be provided by charities or the private market and that the primary source is going to have to be the state sector.

Finally, the management and development of low rent housing needs to be

reliable organized. The numerous changes in housing reform policy have also created opportunities for corruption and mismanagement. After twenty years of reform, the major chunk of housing resources is still allocated by gatekeepers with a disproportionate amount of power and control. Moreover, all new policies seem biased towards existing beneficiaries giving those already in the system a relatively more privileged position compared with new entrants. In a society where both wealth and income levels are still relatively low, individuals who occupy powerful positions in the distribution system will stand to benefit more. When the low-rent houses are built and occupied, the management of them will become an important new problem requiring fair, transparent and efficient allocation policies

To maintain social stability in China the development of a social housing security system is a key priority. As commercial housing is expensive relative to average incomes, affordable housing and low-rent housing are both possible way to help most middle and low income groups to achieve better living conditions. The lower-middle and normal low income families, living in the gap between the two social housing policies mentioned above, will require new policy measures.

Further Discussion and Conclusions

Building a Harmonious Society on Housing Policy

Currently, China's urbanization rate is nearly 40% compared with around 80% in most developed countries. Given the current rate of economic development China will need at least 20 years to reach that latter figure. In that process of urbanization the gaps between rich and poor in the cities are likely to grow and housing problems will almost certainly increase sharply. The majority of new urban dwellers will be low income families from rural areas. If there is going to be a harmonious society, rather than increasing urban conflict and social divisions, the provision of affordable housing for low income people will have to be a major

policy priority. Moreover, if the problem is to be addressed, these growing housing problems have to confront as a matter of urgency.

To achieve this there is a need for a 'Social Housing Security Law' (*gonggong zhufang baozhang fa*) which establishes clear guidance for the development of social welfare housing and which identifies the responsibilities of local government. This is necessary to ensure that central government policies are implemented rather than circumvented or adapted by local administrations seeking to protect local profit. China's existing legal regulation essentially promotes the real estate industry. These regulations do not serve the needs of low income families who are disadvantage consumers in the real estate industry. To fundamentally adjust the social welfare housing system, relevant laws are needed to standardize the residential construction, consumption and distribution process.

After more than 7 years, 25% of Chinese cities have still not worked out their local low-rent housing policy. Central government has announced the new proposition of 'establishing a harmony society' and the real estate industry has to be harnessed to work with this new proposition in order to provide such housing. It is no secret that the real estate industry in many Chinese cities is one of the key sectors. The sector can pay high tax rates and makes a substantial financial contribution to local government coffers. Some local administrations have become the largest beneficiaries of real estate activity and local finances and the local economy increasingly depend on the sector. It is for this reason that some local administrations find ways to make central government policy directives ineffective.

2006 was a pivotal year for low-rent housing development in China. On 25 January, the Policy Research Centre of Ministry of Construction published their assessment of the country's residential and real estate development. It stated that both central and local government will focus on establishing a low-rent housing system. Then, in May 2006, the Chinese premier Wen Jiabao announced some

new policy issues on real estate and residential development and criticized the 70 cities which still did not have local low-rent housing policies. In several places the new policy highlighted the importance of low-rent housing systems. Later in the year, most local governments issued new five years residential building plans. Some local governments, such as Beijing and Shanghai, gave clear targets for low rent building and subsidies. It is the first time that low-rent housing has been given such emphasis.

This new policy emphasis is one recognition of the new realities of the Chinese income structure. At the end of 1990s, most Chinese policy makers thought that the low income group represented the predominant element in the urban social structure- some 80% of China urban society with the remaining 20% in the high income and middle income groups. There was no clear identification of a lowest income group. As a result, almost all local administrations paid much more attention to affordable housing than low-rent housing. Affordable housing developed rapidly with only minimal provision of low rent housing.

Every year, from 1999 to 2005, Beijing local government built about 2,000,000 to 3,000,000 square meters of affordable housing, approximately 350,000 to 450,000 affordable housing units. But as affordable houses are sold to the residents, so too is the land. Urban land is a scarce and valuable resource and once sold privately it is not available for use for strategic welfare purposes. Moreover, there is no exit policy in relation to affordable housing. Once a resident has passed the legal criteria and bought an affordable house he or she has full ownership. The government has no right to retract his/her welfare house even if he or she would prove to be ineligible the day after signing the ownership contract. This is more of an issue because of the rather lax system of checking eligibility and other problems. Affordable housing policy has strayed a long way from its initial target, has made the conflict between rich and poor worse in some big cities in the recent years and has benefited the better off rather than lower income families.

For these reasons some policy makers have begun to question the benefits of the affordable housing policy. In a meeting of the state council in early 2006, some policy makers suggested the termination of affordable housing and supported the transfer of the land and the financial budget to support low-rent housing. Although the cost of building low-rent housing is greater than simply supplying land to build affordable houses there are some obvious advantages. First, publicly owned low-rent housing is a recyclable resource and it does not need to endlessly occupy limited urban land. As these dwellings are rented rather than sold, ownership is retained by local government. Those households allocated to these properties could be compelled or encouraged to vacate them once they are no longer eligible. They could then be reallocated to another household.

The second reason is that building a certain number low-rent houses is the most economic measure from the point of view of an investment which can be reused. Although, for governments, the initial cost of building low-rent houses is always much more than just supplying land for affordable houses, there is no endless land demand continually pressing local government. It is also a more direct and reliable way to help low income households. In addition the initial cost, the annually maintenance of LRH will be another cost. But putting these cost into a long term perspective (i.e. 30 to 40 years), they would be less than the total LRH subsidize, which would be arise every year. Especially in Beijing and Shanghai where both house prices and rent are quite high, the local government has to pay a high subsidy to ensure that low-income families can find a property to rent in the commercial market.

The third reason is that it is simply unrealistic to encourage most low income families buy their own house when they cannot afford to do so. Assistance to rent enables an immediate improvement of living conditions. As social and economic conditions change, and more households are in a position to buy, tenant purchase and other similar schemes could be introduced.

Obviously, building a certain amount low-rent house means the local governments will afford more responsibility and do more work than the current status in which the governments only need to supply land or provide low-rent housing subsidizes. But to build the harmony society, the responsibility of solving housing problems of urban poor is unavoidable. There is still much work to do and much detail to be considered, such as establishing legal examining system, where fund comes from, the quantity amount of low-rent houses to be built and the lack of professional managing department and system. All these are quite complex on current China special society; there are much more relevant works which should be done at first. For these reasons, over the next five years, most of municipalities have decided to enhance the low-rent housing system and, at the same time, continue to build affordable houses.

Whatever policies are adopted and pursued, there is the major problem of the floating population, the unofficial poor. Continuing rural-urban migration is generating an ever expanding group of urban residents which is excluded from the welfare system, including low rent housing. This is a serious threat to social harmony. Currently, there is no national personal information system about this group and local data are often absent. It is therefore extremely difficult to target welfare on a group where there is scant information on their financial and other domestic circumstances. A further problem is that these people do not have stable incomes. For this reasons, official assessments are very problematic. And, of course, the fundamental difficulty is that few urban local governments want or can afford the extra financial burden to help people who are not registered with them. It is clearly very difficult for a local government to adjust its low-rent housing policy to cover a huge floating population, but it cannot be avoided in China's development process. In the future, as more and more rural residents move into cities, the question of whether low-rent housing should cover them will have to be addressed.

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