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Urban governance, neoliberalism and housing reform in China

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Urban governance, neoliberalism and housing reform in China

James Lee and Ya-peng Zhu

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Abstract Since 1979, housing reforms in China have been seen as successive state efforts to improve urban governance. The idea is that the state has all along failed to deliver housing efficiently and equitably through the work units and that it is believed that only through the recommodification of housing could the housing problem be ultimately resolved. The housing monetarization policy (HMP) was thus launched in 1998 to replace the long-standing in-kind housing subsidy under the old welfare housing system. The policy aims at providing workers with cash subsidies as part of their wage package to enable them to buy or rent their homes from the market. The purpose of this paper is to explain the implications of the HMP through a neoliberal urbanization perspective. Through the case study of Guiyang, it is argued that while the HMP is successful in improving certain historical housing inequalities, it does not primarily aim at eradicating housing inequalities. HMP has in fact led to more rather than less horizontal inequities. In addition, it is argued here that a market housing system is leading towards increasing urban poverty, greater social polarization and

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spatial segregation. To improve governance, China needs to keep neoliberal urbanization in check and pay serious attention to its adverse consequences during economic transformation.

Keywords Housing policy; housing reform in China; governance in China; housing monetarization policy; housing inequality; neoliberalism; neoliberal urbanization.

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Introduction

Although housing reforms since 1979 have substantially improved the living conditions of urban residents in China, many major cities are still plagued by poor housing standards and acute housing shortages. Even after two decades of reform efforts, many urban residents continue to rely on work units for housing because they cannot afford to buy or rent in the private market. Urban governance is now more chaotic than a decade ago since the process of rural–urban migration has reached a new level of complexity, closely associated with the issue of political instability arising from a national policy of uneven development between the rural and the urban sectors. To alleviate the housing problem and to improve urban governance, the government introduced the *housing monetarization policy* (HMP) in 1998 to replace the old in-kind welfare housing system. The housing function of the work units (*danwei*) is expected to be gradually taken over by the market, or what Davis (2003) termed 'the recommodification of urban housing'. Unfortunately, this policy is premised on a problematic assumption – the belief in the capability of the market to solve housing problems. Although the government is well aware of the perils of such a precarious project: one that could possibly lead to a property bubble, economic crisis and the well-being of homeowners, the neoliberal turn in housing development in China is still being heralded as a one-size-fits-all method in urbanization and economic development. Using a neoliberal perspective and data from a case study of HMP implementation in Guiyang, this paper argues that housing reform in a neoliberal direction is likely to create more housing inequalities than HMP originally sought to reduce. Moreover, with more private housing investment, China has set herself on a familiar course of urban change which currently preoccupies many governments in the West – the marginalization of the urban poor as a result of rapid urbanization. Such new socio-spatial segregations will give rise to a new set of urban problems and instability which may be more serious than those issues housing reform set out to resolve (Wang 2004). In this paper, we shall first discuss briefly the early process of housing privatization and the background leading to the HMP in 1998. It is then followed by a discussion of the neoliberal turn in China's urbanization and its similarity with what is happening in the West. We then focus on Guiyang as a case study, highlighting HMP's theoretical roots and why it is essentially part of the neoliberal turn. Finally, we conclude by discussing the limitations of the model on eradicating housing inequalities and its broader implications on urban poverty and social segregation.

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Failure in governance: housing shortages, inequalities and early reform

Before 1980, China adopted a socialist, work unit-dominated welfare system. This system involved a mixture of three components: socialist ideology, welfare philosophy and clan tradition (Zhao and Bourassa 2003). The main goal of the socialist tradition was to eliminate social inequities and class exploitations. Thus, most of China's private housing came into public ownership in the 1950s (Wang and Murie 1996; Zhou and Logan 1996). China then established its own urban welfare system fully tied to the workplace, leading to a massive post-war construction of workers' housing distributed on needs criteria through the work units and the city housing bureaus. Unfortunately most of this housing was of poor built quality and rent levels were kept so low that they failed to generate enough resources to sustain even basic maintenance. Public ownership of urban housing by the work units also discouraged individual investment and hence resulted in severe housing shortages. For example, in 1989, nine years after initial reform, China recorded 5,388,403 households (about 10 per cent of the urban population) in need of housing, of which 469,481 had a per capita living space of less than two square metres (Chen 1998). Housing shortages have aggravated the inequitable housing allocation amongst not only different types of enterprise, but also individuals. First, the allocation of investment funds favoured housing of state-owned enterprises more than housing under city bureaus and collective enterprises (Lee 1988). As a result, 74.4 per cent of collective enterprises, compared to 32.8 per cent of state-owned enterprises, were unable to house their employees (Yang and Wang 1992). Welfare housing and its related administrative allocation system also led to widespread corruption, where some cadres gained more than a fair share of their housing through *guanxi* (personal relationship). The quasi-clan system caused significant inequity amongst different work units and in the late 1970s the problem became so serious that the government was forced to act. Moreover, the labour force had become greatly immobilized under the old welfare housing system as jobs were tied to housing. Employees were inclined to stay put while enterprises were reluctant to lay off redundant workers. Some economists have suggested that such labour immobility accounted for much of the low productivity in the 1960s and 1970s (Chen 1998).

From the outset, the goal of housing reforms was to abolish the old system and achieve housing privatization, commercialization and socialization. Privatization involves the sale of publicly-owned dwellings to sitting tenants hence reducing the state's burden. Enterprises could then put scarce resources to more profitable use. Also, housing reform is considered useful in freeing enterprise managers from non-productive decision-making so that they can concentrate on improving productivity (Chen 1998). Commercialization involves the establishment of a housing market where housing could be commodified and exchanged, while socialization involves the transfer of

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housing management from the control of the work units or local housing bureaus to professional housing management firms (Zhao and Bourasa 2003). Reform of the urban housing system started in 1980 and, during the course of the reform, private homeownership became a popular choice. The source of housing construction funds has also become privatized and, as a result, the central government's share of housing investment declined from 90 per cent in 1979 to 16 per cent in 1988 (Chen 1998). By 1990, the average per capita living space nearly doubled that of 1978, and the number of households with less than four square metres per person had fallen by 2 million to 5.38 million (Bian and Logan 1997). Indeed, housing reforms of the 1990s did produce significant changes on several dimensions. By 1995, 46 per cent of urban households lived in dwellings built during the 1980s, while 20 per cent lived in homes built since 1990. The percentage of families living in self-contained apartments rose to 50 per cent in 1992. In 1995, the State Council announced steps to regularize *housing provident funds* (HPF) throughout the country as a primary means to promote homeownership. In addition, reforms were made to the banking system, enabling individuals to borrow mortgage loans for home purchase. At the end of 1994, 30 per cent of urban households held some form of ownership right of their home. In 1999, a study by the Sinomonitor and the British Market Research Bureau revealed that the percentage of homeowners in urban areas of China has risen to 59 per cent. Xie Jiajin, the Director-General of the Department of Housing and Real Estate in the Ministry of Construction, reported at the 2001 National Housing Reform Conference that an estimated 80 per cent of all public housing had already been sold to the people. Owner-occupation, a popular form of tenure in Western industrial societies, seems to have taken root in China.

However, taking China as a whole, such progress is sporadic rather than general. Housing reform since 1980 is fraught with two major problems. The first concerns tenure preference. From cadres to workers, many still consider housing provision a core responsibility of the state, not the individual. Housing is still being regarded as having a distinct welfare nature as many work units refuse to implement housing reforms thoroughly. Second, under the old welfare housing system, wide disparities existed amongst work units due to their different profit levels. Workers doing similar jobs in comparable positions but in different work units might find themselves in widely different housing conditions. Housing inequalities were thus prevalent and deeply embedded in the old housing system. During the housing reform era, such inequalities continued to exist because work units remained dominant in housing provision. In addition, horizontal inequity across different work units worsened. Khan *et al.* (1999) documented a sharp increase in income inequality between 1988 and 1995. During the same period, housing subsidies became less equally distributed, with 41 per cent of subsidies in 1995 received by households in the top 10 per cent of income distribution (Bian and Logan 1997). Housing policy thus accounted for

37 per cent of overall inequality in the distribution of income in urban areas in 1995.

Housing as the new growth focus: the genesis of the HMP

In 1998, when Zhu Rongji became China's premier, the new administration faced many thorny economic issues as a result of the Asian financial crisis. Amongst them, China's exports decreased considerably and millions of workers were laid off from state enterprises. As a means to offset the impact of the unfavourable economic environment, stimulation of domestic demand became an inevitable alternative (Guo 1999: 68–78). Rapid economic growth was crucial to ease unemployment and to maintain social stability. Within this context, the housing industry was positioned as 'a new growth focus' (Guo 2005). It was expected that the growth of real estate and housing investment would help channel individual consumption to the property market and consequently stimulate economic development of related sectors such as construction, home furnishing, electricity and home appliances. HMP as a new policy initiative under this context provided direct cash subsidies to urban residents in lieu of in-kind housing subsidies. With this cash allowance, urban residents were expected to meet their housing needs in the open market, in conjunction with financial resources from family savings, housing provident fund and private mortgage loans.

HMP was implemented in successive stages. First, the provision of rental housing through work units was terminated from 1998. Work units were prohibited from building or buying housing from the market for rental purposes. Second, the *housing fund* formerly provided to the work units for buying or building housing was transformed into cash subsidies for workers. Meanwhile, rent reform continued while the sale of public housing became the priority (State Council 1998). Third, a multi-layered housing provision system was established, providing housing to people according to their labour positions: high-income earners to buy private housing; medium- to low-income households to buy low-cost housing; and finally low-rent social housing to be reserved for the poorest (State Council 1998). The whole idea behind HMP is thus reminiscent of the concept of a housing ladder commonly found in Western industrial societies (State Council 1998).

Housing and urbanization in China: the neoliberal turn

That China should be the focus of an inquiry into the extent of neoliberalism's possible impact is remarkable, given its history and its continuing status as a nominal 'communist' state. Indeed, it is only as a consequence of major geopolitical turning points like China's *rapprochement* with the US in 1972, or the end of the Cold War in 1989, that a discussion of the possible impact of neoliberalism on China makes any sense at all. One curiously neglected area to date is the impact of neoliberalization on China's urbanization. Since

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the commencement of economic reforms some two decades ago, China has quietly undergone one of the world's most dramatic urbanization processes in modern times. While in 1978 only 18 per cent of its population was classified as urban residents, the 2000 Census revealed an increase to 456 million – some 36 per cent of the country's total population. If the urbanization rate of 1995 continues, China will have a 50 per cent urban population by 2010 and 64 per cent by 2020. Supra-rapid urbanization is also evidenced by the increase in the number of cities. In 1978, there were only 193 cities in China. By the end of 2000, the number was increased to 663, more than threefold in two decades (Wang 2004). Successive rural reforms in the 1980s meant a huge supply of surplus rural labour. Coupled with the concentration of capital and development policies in the new cities or new urban centres, China has managed to create the all too familiar scenario in what David Harvey described as capital and space amalgam (Harvey 1989). Multiple circuits of capitals succeed in revalorizing the urban landscape transforming formerly worthless city land into plots worth millions.

Briefly, the intellectual roots of neoliberalism (Bourdieu 1998) can be traced back to the post-war writings of Hayek and Friedman. It gained widespread prominence during the late 1970s and early 1980s as a political strategy to deal with the sustained global recession of the preceding decade. Faced with the decline of traditional mass industrial production as well as the crisis of Keynesian welfare policies, the old industrial West began to dismantle the basic institutional components of post-war politics and create a series of new institutional arrangements and policies to justify the deregulation of state control over major industries, assaults on organized labour and the shrinking of the welfare state. Translated into global public policies, neoliberal politics come in all sizes and shapes. However, amongst activists and academics alike, all have come to agree on the following principal elements about neoliberalism: (1) a mixture of neoclassical economic fundamentalism; (2) market regulation in the place of state intervention; (3) economic distribution in favour of capital; (4) moral authoritarianism with family as the core social value; (5) international free trade principles; and (6) intolerance of trade unionism (Moody 1997:119–20).

The impact of the neoliberal turn on the urbanization process is apparent when major economic activities are taking place in cities. Neoliberalism has come to transcend, not simply the physical structure, but also the social relationship between people, work and place, notably the value of the 'home'. Housing inequalities seen in this light are thus much more complex than a deprivation of space and basic needs. Liberalization of China's new political economy is now closely intertwined with the country's latest process of socio-spatial division (Wang 2004). This then brings us to the most important observation of China's new urban question. The linchpin of China's economic reform policy is the belief that the market, properly regulated and liberated from all forms of unnecessary interventions, represents the optimal mechanism for economic development. The HMP to a great extent follows

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this logic, in anticipation that ultimately all housing needs could be met by the market.

What follows immediately from the above observations of China's urbanization are the striking similarities with what has been keenly observed in many Western urban industrial economies and what many anti-liberalist academics are hotly contesting (Peck and Tickell 1995; Bourdieu and Nice 1998; Harloe 2001; Brenner and Theodore 2002). The central idea is that the 1990s was a decade in which the term 'neoliberalism' became a major rallying point for a wide range of anti-capitalist popular struggles. The key contention is that there is a stark disjuncture between the ideology of neoliberalism and its everyday operation in capitalist societies. On the one hand, while neoliberalism aspires to create a utopia of free market, it has in practice entailed a dramatic intensification of coercive, disciplinary forms of state intervention in order to impose market rules upon all aspects of social life. On the other hand, whereas neoliberal ideology implies that a self-regulating market will generate an optimal allocation of investment and resources, neoliberal political practice has generated massive market failures, new forms of social polarization, and a dramatic intensification of uneven development at all spatial dimensions, particularly in terms of housing-related social divisions (Forrest *et al.* 1990). In short, the neoliberal shift in government policies in many Western industrial economies tends to subject the majority of the population to the power of market forces while preserving the protection for the strongest (Brenner and Theodore 2002: 15–16).

On a more practical level, neoliberalization does affect urban development in at least three distinct ways. First, capitalist urban development is always characterized by a pattern of *uneven development*. It is a key expression of capital's relentless drive to mobilize particular territories and places as forces of production. Each stage of capitalist development is associated with a distinctive, historically specific geographical landscape in which some places, territories and scales are systematically privileged over and against others as sites for capital accumulation (Harvey 1982; Massey 1995). Second, since the social relations of capitalism are permeated by tensions and conflicts which undermine or destabilize the accumulation process, the state is seen as a vital institution in which successive *institutional fixes* evolve to regulate these uneven developments. Neoliberalism thus represents a complex, multifaceted project of socio-spatial transformation by the state to maintain and restore disequilibrium arising from the system's inherent instability. It contains not simply a utopian vision of a fully commodified form of social life, but also a concrete programme of institutional modifications through which the unfettered rule of capital is to be upheld. Third, all neoliberal urban projects involve 'the creative destruction' of existing institutional arrangements and political compromises through market-oriented reform initiatives, and the creation of a new infrastructure for market-oriented economic growth, commodification and the rule of capital (Brenner and Theodore 2002). In Table 1, we can observe the likely effects of the destruction and

Table 1 Neoliberal urbanization and its impact on institutional change in Western industrial economies

Site of regulation	Destruction of existing institution	Creation of new institution
(1) Restructuring urban housing markets	Elimination of public housing and other forms of low-rent accommodation; elimination of rent control	Creation of new opportunities for speculative investment in the real estate markets; introduction of market rents and more owner-occupation housing
(2) Transformation of the built environment	Destruction of traditional working-class neighbourhoods to make way for speculative redevelopment of real estate projects	Creation of new privatized spaces of elite/corporate consumption; reconfiguration of local land-use patterns; creation of gated communities and other purified space of social reproduction; intensification of socio-spatial polarization; competitive pricing for urban land
(3) Restructuring the welfare state	Local relays of national welfare services are retrenched	Expansion of community-based sectors and private approaches to social service provision; imposition of work on welfare recipients

Source: Adapted from Brenner and Theodore (2002: 24–5).

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creation on these three dimensions: (1) the restructuring of the welfare state; (2) the restructuring of the housing market and (3) the transformation of the built environment. For example, low-rent social housing is reduced or eliminated and replaced by private homeownership for every household. The UK is a typical example where this process began in the early 1980s, and by 1998 most social rented housing had been turned into homeownership through deliberate neoliberal housing policies. The development of housing policy in the UK was shaped more by housing market restructuring than by ideas associated with the welfare state. However, in more recent times developments in housing have been congruent with the modernization of the welfare state, challenging the notion of housing as the wobbly pillar under the welfare state (Forrest *et al.* 1990; Jones and Ward 2002; Malpass 2004; Raco 2005).

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It can be observed from these three linked, familiar urban processes that neoliberalization has indeed brought instability and change to the social system through various institutional changes. The market has assumed many former state a responsibilities in terms of forging a new housing, social welfare and neighbourhood configuration, one which constantly emphasizes competition and privatized consumption. New urban spaces with much clearer boundaries (e.g. a gated community or a self-enclosed housing estate) are created to replace extant communities. This spatial process is both inclusive and exclusive, with an ultimate aim that cities will become increasingly central to the reproduction, mutation and continual reconstitution of neoliberalism itself.

China's housing reform in the context of neoliberal urbanization

Superimposing the above discussions onto the current context of major Chinese cities *vis-á-vis* their urbanization process and housing reforms, we discover striking resonance with what is happening in major Chinese cities in recent decades.

Uneven housing development and transforming the built environment

After two decades of housing privatization and commercialization, many Chinese cities are now not simply spatially transformed, but segregated, with pockets of poverty permeating the urban arena. From Chongqing to Shanghai, no one who visits China today can fail to witness the enormous transformation of its built environment. The introduction of massive new capital and a general breakdown of the planning regulations have resulted in a situation of 'chaos' or acute uneven urban development in many Chinese cities (Wang 2004: 25–50). New urban 'enclaves' are constantly created in the form of luxurious new condominium apartments often advertised as an 'oasis in the city', marking distinctions from the surrounding poor old *danwei* housing. David Fraser's study of Shanghai real estate advertisements suggested that the home is being constructed as the central site of social interaction and consumption. People acquire not merely a domicile like the old communist days, but a personal and private terrain that repudiates the severe constraints on personal life imposed in earlier decades by the Maoist work units (Fraser 2000: 27). In a recent study of uneven housing conditions of Chongqing and Sheyang, Wang (2004: 103–5) suggested that housing itself should also be considered as a cause of poverty, since poor housing conditions inherited from the previous economic system and the associated weak financial position of families could also cause poverty. On the one hand, the creation of the HMP and the push for private homeownership could well be seen as the destruction of the old neighbourhood to make way for new private housing projects which could not be afforded by the old neighbours. On

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the other hand, the replacement of the old welfare housing system by HMP means the *creative destruction* of an existing institutional arrangement by market-oriented reform initiatives and the creation of a new infrastructure for growth. After twenty-five years of urbanization, much of the transformation of the central part of big cities in China has been completed, leaving only small patches of traditional housing areas in bad locations. Contrasting with the traditional old housing areas where one can still find in cities like Shanghai, the new urban landscape consists of many new zones and districts, such as the central business districts, high-tech development areas, special economic zones and new residential districts for professional foreign workers. The Ministry of Construction reported in 2003 that the main housing problems were no longer overcrowding, but much more to do with urban poverty. The 2000 National Population Census revealed that 71 per cent of urban housing was purpose-built housing units while on average residents in the urban areas can only enjoy 0.75 of a room per person. In addition, there were still 15 million urban households with less than eight square metres of floor space per person and only 72 per cent of urban families have electricity or gas as the main fuel (Liu 2003). Neoliberal urbanization has succeeded in carving out a new urban China fragmented by the continual destruction of old neighbourhoods and communities, resulting in the creation of new poverty and social exclusion.

Restructuring the welfare system and building new community identity

One policy that has played a significant role in China's economic reform is the successful shedding of most welfare functions from central government to local government, and from work units to local communities. Social welfare services are either gradually 'socialized' to the municipal level or are completely privatized. Socialization of welfare services is considered essential in solving financial problems of bankrupt enterprises and is considered a form of 'institutional fix' seeking to balance emerging social conflicts. Neoliberalization in the form of welfare state restructuring is sometimes phrased as *welfare pluralism*, or *mixed economy of care* or, more recently, the creation of a *social care market*. In a recent study of the evolution of the Western welfare state, Gilbert (2004) argues that the new millennium would be marked by a steady global convergence of the way in which social welfare is governed by world cities, irrespective of their ideological origins, or the way their welfare systems are organized. This will involve the emergence of what Gilbert (2004) calls *the enabling state*, in which government will have little or no involvement in direct social welfare provision. Social welfare arrangements are now increasingly designed to facilitate people to work as well as to enable the markets and the NGOs to assume an expanded role in providing social protection. Given this global trend of welfare state restructuring, it is interesting to note that China's welfare restructuring is following

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similar routes. Wong (2001) argues that socialization is the most fundamental change in terms of social policy development in China since 1949. Since the economic reform in the late 1970s, three important welfare financing methods have been detected in the social welfare sector. First, there has been a substantial degree of devolution from central to local government, and also to communities. Second, funding sources have been much diversified. Third, the proliferation of fee-charging has transformed a hitherto closed welfare system into one which takes on a competitive edge. All these changes could not be viewed as simply part of the process of transition from a socialist to a capitalist state. It represents a new configuration of social relationship and community identity: one which is characterized by breaking down the dependency of workers on the *danwei* through the creation of a new bondage and new relationship between homeownership and the people. A new set of social relationships is now built around the 'home' and how it is related to other homes in a new, perhaps 'gated community'. Davis (2003) argued that as a result of such enthusiastic embrace of market transactions, the commercialization of welfare goods and housing, the post-Mao leadership has fundamentally realigned the long existing paradigm of state – society relationship. This makes the housing question in China particularly intriguing as it is no longer simply about housing. It now has much to do with a new element of social division and an urban environment actively realigning its internal order.

Evidence from Guiyang

To better appreciate the micro effects of neoliberalization in the housing sector, we will examine the case of HMP implementation in Guiyang – the provincial capital of Guizhou. The reasons behind the choice of Guiyang are twofold: first, Guiyang has adopted a rather unique approach in terms of implementing HMP and it has been used as a demonstration model for other provinces since 1999. As one of the chief architects of the HMP policy in the central government, Guo Shuqing (2005) (currently the CEO of China Reconstruction Bank and a leading economist), was appointed the Deputy Provincial Governor of Guizhou province, overseeing HMP implementation during the period 1997–2001. As such, Guiyang was deliberately chosen by China as the experimental city for HMP implementation. Second, despite being situated in a poor province of western China, Guiyang had a strong leadership and a track record of good governance in the past. This thus significantly reduces the effects of implementation variables in our study and enables us to focus more easily on the direct impact of the model.

Guiyang has an area of 2,403 square kilometres and a population of 3.48 million in 2003. GNP, in 2003, was 38 billion yuan with a per capita income of 5,368.98 yuan for urban residents, which was lower than the national verage of 7,068.86 yuan (Statistical Bureau of Guiyang City 2003). Consumption expenditure per capita was 5,036 yuan, which was 14.3 per cent lower than the

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national average of 5,874.87 yuan. Living space per capita was only 2.7 m^2 while most dwellings were of poor build quality. From 1950 to 1978, only 226,443 million yuan were invested in housing and a mere 3.31 million m^2 of dwellings were completed, providing housing for just 60,000 households (Guiyang Municipal Housing Reform Office 1992: 101). Housing construction was speeded up as a result of the economic reforms. During the twelve years from 1978 to 1990, total investment on housing was increased to 1.74 billion yuan, seven-fold of the total investment for the period 1949 to 1978 and more than 6.35 million m^2 of public housing was completed. In spite of these achievements, there was still an acute housing shortage, since some 260,000 m^2 of old and dilapidated buildings have to be demolished annually. Although the government spent more than one-fifth of its fixed capital investment in housing construction, it was not sufficient to satisfy housing needs. Throughout the country, the biggest stumbling block for HMP implementation is the difficulty encountered by the provincial government to garner sufficient finance for the provision of cash allowance. Many provinces failed to implement HMP according to schedule because the provincial governments could not find additional housing resources under the old welfare system. Thus only a small number of strong enterprises were able to implement the policy in the initial phase.

The uniqueness of the Guiyang HMP model is by way of a complete revaluation of the existing housing stock occupied by public servants, taking into account, for the first time since the housing reform, the location and physical conditions of the property. This is an improvement from the previous welfare housing system under which all housing units were assumed to be of identical locational value, with their difference only in size and layout. Revaluation is then followed by an assessment of housing entitlements of individual workers according to their labour position, which includes salary level and seniority. Workers are then assigned an individual housing allowance account where a notional sum is deposited into it showing their housing entitlements accumulated over their entire work age until 1998. They are then informed of the differential between their current asset value and their accumulated entitlement according to a formula (to be detailed later). In practice, if a cadre occupies a flat above and beyond his entitlement, under the Guiyang system, he has to make up the monetary difference between the assessed market value of his current home and his entitlement by means of reimbursing the City Housing Bureau. Conversely, for those who are underprovided, they are compensated with a grant. They may choose to purchase either their existing homes or other private housing in the market. All public tenants are then given full property rights so that they can exchange their flats in the market once they settle such differences. New workers, who have never been provided with public housing, are given a lump-sum allowance plus an additional monthly allowance to assist them to purchase a flat in the market.

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This model marks a significant departure from the former in-kind welfare housing distribution where flats were distributed according to an individual work unit's own set of criteria and resource situation (Zhu and Lee 2004). Many people in Guiyang were sceptical about the model at the beginning. However, from a superficial level of local governance, the model has been implemented with considerable success. Two reasons can be attributed to its initial success. First, as a poor provincial capital, Guiyang could not afford to adopt generous subsidy schemes as in other wealthier cities such as Shenzhen, Guangzhou and Nanjing. It must therefore seek more innovative ways to implement HMP (Guo 2000: 521–4). Second, strong and professional leadership played an extremely important role in planning and implementing the reform.

Theory and practice: from use value to exchange value

Guo's (2005) model of housing reform is premised on three guiding principles. (1) His idea of housing recommodification is deeply influenced by what Western housing economists widely use – a two-sector housing model comprising the rental and the homeownership market. Housing demand is considered essentially rooted in rent-level changes. The demand for homeownership is thus considered to be affected both by the *demand for space* as well as the *demand for investment assets*. The historic low rent level under the old welfare housing system which is considered a stumbling block in the formation of a market-oriented housing sector must be changed. In order to transcend to full market operation, rents and wages must be increased simultaneously in order to make homeownership affordable. (2) *Differential land rent* should be considered an essential component of housing costs and benefits. In Guo's view, one of the main reasons why housing inequalities widely exist in China is that housing costs do not reflect locational qualities (Guo 2005: 534–55). As a result, all housing units are assumed to have uniform land cost. Thus a flat in central Shanghai costs the same as one in the suburban area. But in any mature housing market, housing and land are always expensive at better locations and cheaper at less advantageous sites, hence reflecting differential land rent (Guo 2005: 36–9). If the HMP policy disregards this factor and merely distributes housing subsidies according to one's entitlement, it will inevitably entail a great deal of housing inequalities once the houses are exchanged. Those workers who happen to live in a good area will stand to gain a lot more than those who live at the city fringe. (3) Housing affordability must be linked to the income level of target users or buyers. The early experience of housing reforms in many coastal industrial cities such as Shanghai and Nanjing was that house prices rose much faster than wages. In the Guiyang model, it is stipulated that once the price-income ratio (or what is generally termed as the affordability ratio) has gone beyond four, work units will need to provide a cash allowance for workers, in order to maintain housing affordability (Guo 2005: 534–55).

Table 2 Standard of EHSS in Guiyang

Position	Entitled space (m^2)	EHSS entitlement (yuan)
Junior staff and workers	20	624
Head	25	780
Vice-director	30	936
Director	35	1,093
Vice-secretary	45	1,405
Secretary	50	1,561

Source: Guiyang Municipal Housing Reform Office (1998).

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The Guiyang model is also built on two important operational subsidy concepts: (1) the *existing housing stock subsidy* (EHSS) and (2) the *supplementary housing subsidy* (SHS). Existing subsidy principally refers to the lump-sum housing subsidy which is provided to public servants under the new policy in recognition of their services to the government before 1998. The following formula roughly describes how this subsidy is calculated:

$$\text{EHSS} = \text{stipulated subsidies according to rank and work years} \times \text{1998 wage level}$$

Table 2 illustrates the various entitlements under the EHSS scheme. For instance, the director of a mid-size government department who worked for twenty years gets \$1,093 yuan $\times$ 20 years = \$21,860 yuan, while a junior staff member gets \$624 $\times$ 20 years = \$12,480. Theoretically, the money generated from this formula is the growth engine behind the Guiyang model. The idea is that when respective households receive EHSS, together with money from the Housing Provident Fund, bank mortgage and their own savings, they will be able to afford private homeownership from the market. In some way, the EHSS will act as their first down payment as in many Western housing markets.

Guo (2005) considers national housing reform as both 'complex' and 'simple'. The complex part refers to the multiplicity of housing inequalities deeply entrenched within a highly inefficient allocation system. The simple part refers to the huge amount of under-utilized real estate assets trapped within the welfare housing system. According to Guo (2005), China had approximately 3 billiom m^2 of public housing stock in 1997, with an estimated redevelopment value of 4,500 billion yuan (Guo 2005: 534–55). What many Chinese officials considered a national finance burden, he saw as a strong financial asset that could be turned into private consumption and investment. The problem is: in what ways could these assets be transferred and distributed fairly amongst the people? The answer, he suggests, lies in the creation of the EHSS which, when properly administered, would be able to

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generate demand for private homeownership, hence transforming China's housing system, which used to be based entirely on use-value, to one which is based on exchange value.

SHS refers to the new housing component in the wage package and is considered the second part of the HMP. When the values of the existing housing stock are distributed, the next step is to incorporate housing subsidies into the wage package in the form of a monthly cash subsidy given to employees. However, as the financial situation of different enterprises varies tremendously and many enterprises in Guiyang cannot afford to provide the SHS initially, the provincial government used the housing provident fund (HPF) as a transitional substitute for SHS. Accordingly, employers and employees each contribute 5 per cent of the workers' salary into the HPF. From an economic viewpoint, these two types of subsidy represent different levels of supplyied housing consumption, leading towards more investment and growth (Guo 2005: 439–46). In Table 3, it is shown that just prior to HMP implementation in 1997, the Housing Reform Office estimated that a total of 292.86 million yuan had to be mobilized by the provincial government for the implementation of SHS. This represented a major pointer of housing investment compared to any normal year prior to HMP. The Guiyang government simply could not afford this level of investment in 1997 without making use of the HPF provisions.

Housing inequality in Guiyang

Like other parts of the country, there had always been serious housing inequality problems before the HMP reform in Guiyang. According to a 1998 study, housing inequalities between different work units in Guiyang were quite substantial (see Table 4). The housing situation was better in

Table 3 Estimated housing provident fund contributions, 1997

Work units	No. of employees	Per capita annual salary (yuan)	(A) Employee contribution to HPF 5% salary (million yuan)	(B) Employer contribution to HPF 5% salary (million yuan)	(A) + (B) (million yuan)
Government departments	22,526	5,668	6.38	6.38	12.76
Municipal enterprises	306,411	5,864	89.84	89.84	179.68
Provincial enterprises	171,250	5,864	50.21	50.21	100.42
Total	500,187	—	146.43	146.63	292.86

Source: Guiyang Municipal Housing Reform Office (1998).

Table 4 Housing entitlements in Guiyang, 1998

	Per capita space provision (m^2)
Provincial-level government departments and institutions	14
Municipal-level and district-level government departments and institutions	11
State-owned enterprises	10
Collectively-owned enterprises	6

Source: Sun and He (2000).

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government departments than in collective enterprises. Generally speaking, provincial-level government departments had better housing than their counterparts at the municipal and district levels. Major state enterprises fared better than medium and small state enterprises or collective enterprises. Per capita space was 14 m^2 for provincial government departments and 11 m^2 for municipal government departments, while employees in state enterprises and collective enterprises had only 10 m^2 and 6 m^2, respectively. Housing inequalities amongst different work units and employees were also aggravated by shifting reform strategies. One example is the shifting price structure of the sales of public housing to sitting tenants over time. The pricing strategy of public housing sales also varies tremendously across cities and provinces. Broadly, there are two levels of pricing: *biaozhun* (standard) price and *chengben* (cost) price. The *biaozhun* price of public housing carries a comparatively higher subsidy component than the *chengben* price (Table 5). However, the sales of public flats at the *biaozhun* prices were terminated in 1998. All remaining flats have henceforth been sold at the *chengben* prices. This posed an equity issue since those who opted for home purchase before 1998 benefited much more from the standard pricing. There were also a large number of employees who had no access to public housing and hence no benefit from the welfare housing system.

Table 5 Evolution of rent and price of public housing in Guiyang, 1992–1998

Year	Average rent for new housing (monthly yuan/m^2)	Average rent for old housing (monthly yuan/m^2)	Biaozhun (standard price) (yuan/m^2)	Chengben (cost price) (yuan/m^2)
1992	0.4	0.4	230	348
1995	0.9	0.7	515	700
1997	1.2	1.0	515	700
1998	1.7	1.5	—	850

Source: Guizhou Provincial Housing Reform Office of Construction Bureau of Guizhou Province (2003).

Table 6 Land value in Guiyang

Land grades	Land value in 1992 (yuan = m^2)	Land value in 2000 (yuan = m^2)
Grade 1	600	1,190
Grade 2	450	1,190
Grade 3	350	970
Grade 4	250	640
Grade 5	200	410
Grade 6	150	280

Source: Wang *et al.* (2002: 54).

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Housing inequality is also affected by ignoring the differential land value of public flats at different locations. Prior to the 1998 reform, uniform rent and housing price increases were applied to all public housing without taking into account land value. This inherently created inequalities once public housing units were sold and exchanged. In Guiyang, land values doubled from 1992 to 2000 (Table 6). Land values in the best location (Grade 1) are four times of those in the poorest location (Grade 6). Although these prices were set administratively, unlike pre-1998 reform, they now reflect the market price to a greater extent. One major criticism of the HMP in Guiyang is that old workers' interests are heavily protected under the new policy. Originally conceived as a play-safe political tool to pacify those who feared that their housing interests would be hampered under the new policy, it gradually develops into built-in inequity since the preferential sales policy provides 'the old workers' with the opportunity of gaining extra income from heavily discounted public flats (10–20 per cent of market prices) (Zhang 1998).

Neoliberalization, urban poverty and social segregation

Although theoretically strong and practically sound, what we have found in Guiyang's experience is troubling. First, by means of pushing the EHSS, the government falls neatly into what we have earlier suggested – the relentless pursuit of marketization as well as a dramatic intensification of coercive, disciplinary forms of state intervention in order to impose market rules upon all aspects of housing. Meeting housing needs is not the primary objective. Economic development is. The following quotation from Guo makes it clear:

> The core purpose of housing reform, put simply, is about shifting in-kind housing allocation to cash subsidy, to eliminate wastage, to normalize pricing, to improve housing quality, to prevent corruption, to achieve a fairer income distribution amongst workers. More important,

> housing reform is about enabling the housing sector to become one of the leading economic sectors of the country. (Guo 2000: 9–10)

Although the new allocation formula in Guiyang redresses some of the long existing inequalities, the many changes of subsidy policies over the last two decades meant that housing inequalities were already so deeply embedded that they could hardly be redressed by any single policy. More important, the HMP is largely applicable to government employees and state enterprise workers while leaving collective enterprise and private sector workers untouched, not to mention the migrant workers who are not entitled to any housing welfare. What we are witnessing in Guiyang is increasing house prices, uneven development and worsening social polarization. Second, what we see from the model thus far is that the government is only interested in how full marketization of housing is possible, without considering the likely consequences of what happens to many mature housing markets in the West – that is, frequent market failures as a result of over-concentration of players and over-investment. The single-mindedness of the desire to pursue housing commodification by the government easily fell prey to a new culture of 'home' wealth creation. Speculative activities in the private housing market by corporate investors from state and collective enterprises disguised as 'regular investments' have already fuelled prices well beyond the affordability ratio laid down by the government in the last few years. More alarming is the fact that property speculation now coexists with urban poverty. In a recent study, Wang (2004) has confirmed that while the income of the rich in the city increases steadily, the income of the poor is actually in decline. In 2002, the annual income of the first decile reached 2,635 yuan and it then began to fall. In fact it was suggested that taking inflation into consideration, income levels of the poor are in constant decline in the city (Wang 2004: 53). In the last two years, the gap between the rich and the poor had increased again as the Gini coefficient rose from 0.4 of 2000 to 0.5 of 2003.[1] The restructuring of China's industrial organization in recent years is perhaps one of the two most powerful social processes that led to urban poverty. The other process is about rural migrants flooding into major industrial cities for low-paid jobs. These two prime factors, as Wang (2004) suggested, fundamentally restructure China's urban space. Pockets of poor housing areas have been formed in poor state enterprise housing estates as well as in *chengchuncun* (urban villages), which were the original settlements located in suburban areas. Due to urban expansion, the village's agricultural land has been gradually taken over for infrastructure and property development, leaving those undeveloped areas as 'sandwiches' within the new urban jungle. From a neoliberal perspective, full marketization of housing according to the logic of capitalism eventually leads to a wide disparity of urban income and wealth, as well as a growing urban poverty sector. Few take seriously the government's pledge to eradicate poverty by 2011 (Wang 2004: 143).

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At the beginning of the housing reform, Guiyang homeowners were prevented from selling their public flats in the first five years. However, the restriction was soon slackened in the face of a more aggressive national drive to boost the housing market. In 2003, the Chinese government officially encouraged urban residents to trade their flats in the secondary housing market in order to move up the 'housing ladder' (Qi 2003). At the same time, provincial governments were required to loosen all restrictions on the exchange of sold public flats while sellers were allowed to retain all gains from the sales after taxes. Given the big gap in houses prices between the public and private sectors, the housing privatization scheme indeed translates itself into immense wealth disparities, resulting in an increasingly polarized urban society. The successful development of Chinese cities is to a certain extent sustained by the large number of urban poor. Large-scale real estate and infrastructure development could not happen without the exploitation of low-paid labour, particularly rural migrants. During this stage of capital accumulation, the rich rely on the poor to build their wealth. Inequality and poverty, according to the neoliberal perspective, are key features of a market economy. HMP, seen in this light, is therefore primarily a tool of neoliberal development rather than a policy to improve housing conditions and to address issues of equity.

Conclusion

Making use of the Guiyang model, this paper demonstrates how housing inequalities embedded in the old welfare housing system could to some extent be remedied under a local policy variant. However, since HMP is based primarily on one's labour position, it excludes many who are outside the work system. Even given the special policy instruments of Guiyang (through the EHSS and SHS), it could only eradicate some of the inequalities, but not the many embedded inequities. Perhaps this has never been the intention of HMP. In this paper, it has also been demonstrated that the segregation of old and new workers is essentially divisive; coupled with shifting pricing policies for public flat sales during the evolvement of HMP, it actually creates further inequalities during the reform process. Moreover, since there is always a certain degree of arbitrariness in the setting of location prices and the fact that EHSS primarily does not consider differential land rent in a fully competitive manner, there is always great potential for inequities in housing allocation. From these preliminary findings, we suggest that in cities and provinces without the kind of innovation and leadership like Guiyang, HMP would result in even greater allocation inequities. One of the claims of this paper is that while we accept the uniqueness of China's housing reform process, we need to recognize its development within a broader neoliberal urbanization framework. We argue that, to better grasp China's housing question, we need to move beyond national and local governance periodically, in order to see the interaction amongst different scales of operation, particularly from a global neoliberalization framework (Gough 2002; Tickell and Peck 2003).

On this score, this paper gathers some initial evidence through comparing the neoliberal development in the West with what has been happening in major Chinese cities. We conclude by suggesting that there are striking similarities between the two in terms of uneven development, social polarization and the restructuring of the welfare system. The process of global neoliberalization within cities is sometimes far more powerful than a well-conceived mode of governance that local officials can handle.

Although our evidence is rudimentary, it would be worthwhile to reorientate housing reform research along this line for a number of reasons. First, it should be recognized that housing reform cannot be narrowly construed from a purely economic framework without adequately addressing the impact and the context of China's urbanization process. Second, the dominance of global neoliberalization amongst major world cities in the recent decade has triggered a widespread international concern for its hegemonic nature. Contemporary experiences in governance have demonstrated that urban policy, like housing, is becoming more and more reflective of the reign of capital as democratic decision-making is seen by public officials as messy, inefficient and less likely to produce public policies that attract and retain capital in an increasingly competitive global economy. Given China's newfound housing market and its lack of effective regulations, a full-scale mobilization of national housing assets in terms of the EHSS in Guiyang is highly risky, and could be seen as merely providing the best fuel for an accelerated development of neoliberal urbanization – one in which the rights and interests of the ordinary urban citizens are increasingly eroded and transferred to corporations and government officials greatly influenced by them. As we suggested earlier, one important implication of the HMP is the marginalization of the people outside the state system. Our initial assessment of the impact of the HMP is that the Chinese government has moved too far in the direction of unbridled neoliberalism. To maintain a sustainable housing system, China badly needs to reinvent its social housing sector, instead of passively shunning it, as is currently the case with local housing reforms.

Note

1 An estimate by a Nankai University research team led by Professor Chen Zongsheng.

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