



Land-based finance, fiscal autonomy and land supply for affordable housing in urban China: A prefecture-level analysis



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ABSTRACT

China's booming housing market and the resultant skyrocketing housing prices in Chinese cities during the recent decade have led the Chinese government to step up its effort to provide affordable housing for low- and middle-income households. Despite the central government's renewed policy focus on affordable housing program, the real pace of its development in urban China has been too sluggish to achieve its intended objective. Based on a panel dataset of land supply in Chinese cities at prefectural level and above during the period of 2009–2013, this paper examines the factors influencing urban governments' commitment to land supply for affordable housing. It identifies an intriguing pattern characterizing the spatial mismatch between cities devoting a greater share of land for affordable housing and hotspot cities with severe housing affordability challenge. Cities with higher degree of dependence on land finance and higher level of fiscal autonomy were found to be less likely to devote land for affordable housing construction. The study suggests that the project of affordable housing provision in urban China cannot be successfully implemented unless local governments' reliance on urban land-based interests are weakened.

1. Introduction

China has achieved remarkable progress on various fronts since it adopted reform and open-up policies in the late 1970s. Most noticeably, there has been unprecedented improvement in the housing conditions for hundreds of millions of urban residents in Chinese cities with their per capita floor space increasing from 4 to 29 sq m and the ratio of homeownership increasing from 20 to 70 percent in urban China during 1980–2000 (Man et al., 2011; Yi and Huang, 2014). Such significant achievements in housing consumption, however, have been accompanied by phenomenal housing price appreciation and growing affordability pressures for middle and low-income households, especially for young graduates, migrants and other newly entrants to urban labor market. It was estimated that the average housing price-to-home ratio for the 35 major cities in China was 10.2 in 2013, which put China in the category of “severely unaffordable” (Zhang et al., 2016). Housing affordability and housing poverty issues are becoming more acute in China's first-tier cities such as Beijing, Shanghai and Shenzhen, where it takes more than 30 years for an average household with the local median income to buy a 90 sq m apartment (China Daily, 2017). Escalating housing prices and acute housing affordability challenge have been argued to stimulate manufacturing firms to enter real estate

market and consequently undermine their innovation incentives, contribute to enlarged social discontent and social-spatial inequality, and threaten to derail China's urban dream of “a decent home for all” (Huang, 2013; Huang and Li, 2014; Rong et al., 2016). Housing affordability is so crucial to social cohesion and political stability that China's top decision maker Xi Jinping, during a communist party leadership meeting in Nov 2013, urged his bureaucratic associates to spend more efforts to solve various problems in the housing market and boost the supply of affordable housing (Reuters, 2013; Shi et al., 2016).

Although the central government in China has demonstrated an impressive commitment to affordable housing in recent years, the real pace of affordable housing scheme implemented in Chinese cities has been far away from satisfactory and most of the programs barely met their originally planned targets (Huang, 2012). Scholarly assessment of China's affordable housing policy and practice has pointed to the root cause embedded in the fragmentation of China's inter-governmental structure in which “the division of powers, incentives, responsibilities, and revenue sources between the central government and local governments has worked against the state's goal of efficient and effective affordable housing provision” (Zou, 2014, p. 9). Specifically, it is argued that the existing public finance system, the performance evaluation system and localization in policy implementation have combined

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to result in a lack of commitment from local governments to affordable housing (Huang, 2012).

While the existing literature in housing studies has shed important light on the structural reasons for the failure of affordable housing provision, most of them tend to focus on the description and assessment of nation-wide policies and programs at macro scale. Little has been done to empirically substantiate the hypothesized impact of such structural forces on the pace and scope of affordable housing development in concrete cities. Moreover, treating China as a homogeneous entity ignores enormous regional heterogeneity and cross-city variations in housing outcomes (Huang, 2004; Yu, 2006; Zhu et al., 2014). Therefore, it remains unknown whether and how local commitment to affordable housing provision varied across different Chinese cities.

On the other hand, it has been well documented that in a fiscally decentralized institutional environment in the post-reform era, local governments were incentivized to play a developmental role in fostering China's spectacular growth performance (Xu, 2011). Local governments' drive for development has been found to be distinguished by strong urbanism since the mid-1990s when urban governments shifted their efforts from promoting industrial growth to 'urbanizing' their localities (Han and Kung, 2015; Su and Tao, 2017). A growing amount of literature has in recent years explored the rationale behind "the urbanization of the local state" (Hsing, 2010) and its economic and social-spatial implications. However, very few, if there is any, has been written to associate urbanizing local state with affordable housing supply amidst China's land-centered urbanization process.

Against the practical and academic backdrop identified above, this article examines the driving forces influencing the commitment of China's urban governments to affordable housing provision, based on a recently available database on land resources allocated for the construction of affordable housing in Chinese cities during 2009–2013. It identified an intriguing pattern characterizing the spatial mismatch between cities devoting a greater share of land for affordable housing and hotspot cities with severe housing affordability challenge. Further analysis revealed a statistically negative relationship between urban governments' reliance on land finance and local commitment to affordable housing supply. In addition, cities with higher levels of fiscal autonomy were found to be less likely to reserve land for affordable housing. The results from this empirical exercise provide evidence to demonstrate the political-economic logic underpinning local governments' attitude toward affordable housing provision. The study suggests that the affordable housing scheme in China cannot be successfully implemented if local governments' vested interests in land commodification are not severed.

The remainder of the paper is organized as follows. We first provide a brief overview of affordable housing policies amidst China's ongoing urban housing reform. It is then followed by a review of three perspectives that are relevant to our understanding of local governments' commitment to affordable housing supply. After a clarification of definitional and methodological issues, the results of empirical analysis are reported and discussed in the next section. The final section concludes the study.

2. Affordable housing policy in urban China

Affordable housing policy in China experienced frequent change in policy focus and orientation along with China's ongoing urban housing reform away from in-kind socialist housing distribution scheme towards increasing commodification and marketization since the 1980s (Wang and Murie, 2011; Huang, 2012; Chen et al., 2014; Shi et al., 2016). The origin of affordable housing scheme can be traced back to the peaceful living (anju) project which was introduced to provide housing for urban middle to low-income families in 1995 (Zou, 2014). It was replaced by the economic and affordable housing program in 1998, partly as a continuation of central government's intention to further promote housing commodification and home ownership, and partly as a policy

tool to stimulate domestic consumption in response to the Asian Financial crisis. The development of affordable housing was relegated to a secondary position in 2003 when ordinary commodity housing was defined as the main housing form (Huang, 2012). There was a discernible trend in housing provision system thereafter characterized by a declining share of economic and affordable housing in total housing investment and simultaneously a nation-wide frenetic rise in urban housing price. Affordable housing programs were revived and expanded since 2007 when the central government started to shift its focus to the goals to ensure housing affordability and social justice and maintain political stability (Huang, 2012). In 2010, affordable housing was officially included in the 12th five year plan as a critical component of the social welfare and public service system (Dang et al., 2014). Some new programs such as public rental housing (PRH) and price-capped housing (PCH) were added to form a comprehensive affordable housing system.

In its broad sense, affordable housing in China includes cheap rental housing (CRH), public rental housing (PRH), economic and affordable housing (ECH), housing with controlled price, housing with shared ownership and recent resettlement housing for displaced households in shantytown redevelopment and urban renewal (Huang, 2015; Shi et al., 2016). The mainstay of China's affordable housing system includes the first three types, namely CRH, PRH and ECH. CRH refers to in-kind or monetary rental housing subsidies to low-income households facing housing difficulty. PRH is rental housing provided at government-controlled rents to mainly lower-middle income household facing housing difficulties, new employees, and selected qualified migrants (Huang, 2015). ECH is ownership-oriented housing provided by developers on free land allocated by local municipal governments and sold to qualified households at government-controlled prices.

3. What motivates local governments to provide affordable housing?

While affordable housing policy was formulated at central level, its successful implementation in Chinese cities hinges upon the dedication and commitment of various urban governments. Theoretically, there are several motivations behind local governments' preferences towards the construction of affordable housing.

The first group of literature conceptualizes local governments' attitude towards affordable housing from the perspective of "revenue maximization". It makes the assumption about local governments as revenue maximizers (Su and Tao, 2017). According to this perspective, "like most bureaucracies in the world, local governments in China seek to maximize their budgets" (Su and Tao, 2017, p. 2), since "after all, governments are organizations and they need financial resources to perform their functions and survive" (p. 17). Along this line, in the early reform stage, fiscal decentralization motivated local government officials in China to become developmental-oriented that emphasized the growth of local state or township and village enterprises within their administrative jurisdictions and embraced local protectionism. The reshuffling of central-local fiscal relations through the introduction of tax-sharing system in 1994 has allowed the central government to control more revenues, while devolving an increasing heavy burden of providing urban social and public services onto the shoulders of local officials (Lin and Zhang, 2015).¹ The shortfall in local fiscal revenue, together with intensified inter-regional competition and the introduction of a dual-track land market since the 1980s, have driven Chinese municipalities onto a new development trajectory in which the

¹ It has been reported that after 1994 local governments accounted for only 40–50% of total government revenue while being responsible for about 70–80% of total government expenditure. As a result, local governments rely heavily on transfers from central government which amounted to over RMB 5.5 trillion and accounted for about 40% of total local revenue in 2015 (http://online.wsj.com/public/resources/documents/NPC2017_Finance_Chinese.pdf)

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