



No man made the land. When private property in land is not expedient, it is unjust. It is no hardship to any one to be excluded from what others have produced. But it is some hardship to be born into the world and to find all nature's gifts previously engrossed, and no place left for the new-comer.

John Stuart Mill

The transformation of social obligations of land rights on state-owned land in China

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Abstract

Historically, Chinese residential housing was social welfare in nature, and the state mostly bore the social obligations rather than gaining any profit from it. Work units, as the most important social welfare engine in the society, helped to relieve the state's burden of providing social welfare to urban residents. The practice of the central state government subsidizing low-income residents or residential developers also conformed to the social norm.

After 1978, Deng Xiaoping launched a series of drastic land use and housing reforms and eventually transformed the picture of Chinese social welfare. During these land use rights reforms, Chinese land ownership and property rights again played a role of instrumentality to achieve the state's goal to strengthen state land ownership. These reforms have produced significant problems, such as that Chinese state government has completely abandoned their social obligations as both landowners and land regulators.

I. Introduction

"As long as the government has land use rights that it can sell, it will never run out of cash." (Stein 2006, p.39).

—An expert of Chinese real estate development

The history of Chinese state landownership can be seen as a vivid picture of transformation of relatively robust social obligations to weaker social obligations. Throughout the Maoist era, the nature of Chinese landownership was mostly public and social (Tang 1987, p.7).¹ Real estate was not marketable and the government did not gain direct revenue from it (Kremzner 1998, p.619). In fact, commercial buildings were mostly neglected; the state's surplus funding was used for public building constructions and governmental buildings (ibid.).

Similar to the people's communes in rural area, urban public

housing was mostly owned by working units (ibid.).² Described as "egalitarian and proletariat," a work unit was "an organization for work. ... The distinguishing feature of a work unit was a lifetime social welfare system virtually from cradle to grave, and a network of relationships encompassing work, home, neighborhood, social existence, and political membership." (Yeh 1997, p.60). Work units acquired land use rights from local governments and built apartments for their employees.³ (Wilhelm 2004, p.237; Bian, Logan, Lu, Pan & Guan 1997, p.228).

Work units' properties were essentially of social welfare nature (Sigley 2013, p.33). Work units let their employees and family members rent their property units at a very low price

1 Under the old working unit system, land was considered as a "gift of nature," and had no market value because there was no market for real estate. This proposition was based on Karl Marx's labor value theory, which argued, "Value can only be created through labor. ... Land was not product of [the] labor and should not have [a] market value like air and water." Marx theorized, in socialist countries, "Land does have a use value for human beings but it should not be privately owned. ... Land belongs to all people, no sales and purchases of land should be allowed."

2 Although work unit system has been widely castigated, this article argues that work units property was featured with a social welfare character that has been largely abandoned by the current state. Among many other functions work units have served, this article focuses on the social obligations of work units' real properties, or housing and land use rights in particular.

3 Work units' employees received public housing "that [was] owned, managed, and distributed by work unit[s] ... as an employment benefit." There were three types of work unit housing: first category was "direct ownership and management" of work unit; the second category was "allocation of the municipal stock"; and third category was "work unit participation in housing." For the last two categories, work units did not own housing, but were given the power to allocate housing; either the bureau or the municipal government own the housing.

(He & Lu 2009). They also provided various social benefits to their employees and family members, such as school and health care (*ibid.*).

In addition, one feature of the Maoist work unit was that “the workplace doubles as a community.” (Chan 1997, p.96; Lin 2006, p.87). Within such a community, workers were also neighbors, and work-life and after-work life were largely intertwined.⁴ (Lu 2006, p.53). People were acquaintances, as “frequent travel along mutual pathways and shared activities at common meeting places create[d] plenty of opportunities for people to form neighborly bonds.” (*ibid.*). As a resident who once lived in a work unit recalled, “We used to live on a work unit compound and knew almost everyone. We paid visit to neighbors and friends in our spare time.” (Zhang 2008, p.35). Another resident said, “[Perhaps] after one or two decades of living together, these people will gradually form some sort of common lifestyle, tastes, and dispositions.” (*ibid.*).

Work units also relieved the state’s burden of providing social welfare to urban residents (Lu & Perry 1997, p.7). During wartime, work units exerted social and public functions in China (Lu 1997, p.36). When the army lacked resources, the CCP encouraged work units to conduct economic activities to support and improve the livelihood of their members (*ibid.*). In fact, work units also “played an indispensable part in the survival and expansion of the Communist troops and the base area government.” (*ibid.*).

After the establishment of People’s Republic of China, this practice continued (*ibid.*). Especially in the early 1950s when the state was short of revenue and resources, “production activities by [the] army and administrative units remained a major source for solving the budget problem.” (*ibid.*). Work units provided major materials, consumer goods and many other social welfare services to its members, usually free of charge (*ibid.*). Some work units also acquired land and production materials from local villages for free so that they could grow vegetables or grain to serve the needs of their members (*ibid.*).

Since the real estate market was firstly introduced in the 1980s, China has almost completely abandoned the “work unit socialism.” (Lin 2006, p.57, 87). Because work units used to be very influential upon urbanites’ lives, losing work units “meant more than the loss of a means of living.” (*ibid.*). The openness of the real estate market generated huge potential value for real estate, and the overly commercialization of urban real estate greatly transformed the picture of “work unit socialism.” (*ibid.*). The once robust social obligations of state ownership were completely gone. This paper will analyze the history of social responsibilities of Chinese state landownership and land use rights prior to the economic reform, and the transformation of social responsibilities during the land use reforms.

4 There were some land use controls inside most work unit’s compounds. Larger work units planned and separated different districts according to different land uses by walls or roadways, such as recreational areas, production areas, and residential areas. Indeed, a map of a work unit’s compound was roughly a mini-zoning map of a city.

II. The transformation of state landownership and land use rights and its social obligations

A. Pre-land use reform (1955-1982)

Socialist ideology became the dominant force since the establishment of the People’s Republic of China (Zhang 2008). Mao considered the core of socialism was public ownership (Randolph Jr. & Lou 2000). In 1950, the first session of Chinese People’s Political Consultative Conference enacted the “Common Program,” which provided that “any enterprises that were related to national economic lifeblood and national benefit and people’s livelihood should be managed by the state,” (*ibid.*) and “any national resources and enterprises should be public property of all Chinese people.” (Wang 2006, p.98).

From 1949 to 1956, due to a lack of funding and technology, the CCP and the new government acknowledged private home ownership in the urban area in order to maintain and increase the housing supply.⁵ (Liu 2008, p.304). According to a survey conducted in 1956, private ownership in urban areas accounted for a majority of the total housing stock.⁶ (Li 1996, p.34; Zhang 2008; Clarke 2014).

Starting in 1955, as the socialization movement was progressing, private ownership in urban areas began to be imposed with social obligations. Under the socialization movement, all private properties were considered obstacles to social welfare, and private housing was no exception. In 1955, the central government issued “The Opinions On the Current Situations On Private Housing and Opinions For Socialization.” (Liu 2008, p.306; Kremzner 1998, p.618). The Opinion had a strong socialist character. According to the Opinion, the central state established a mandatory leasing system, under which “private owners were no longer free to decide how much or at what price to lease, despite the fact that they still legally retained ownership in their property.” (*ibid.*). It provided a minimum housing quota that private owners could occupy, and “[a]ny space beyond the minimum standard had to be rented out to the public at a state-set rate.” (*ibid.*). Any space that was

5 In August 1949, the central government published an article in the People’s Daily that “urban housing was not a means of feudal exploitation and, therefore, should not be subject to confiscation.” This greatly relieved urban homeowners’ anxiety, as they were previously afraid that their home ownership would be confiscated.

6 Scholars have different opinion about the percentage of private and public properties during this area. For example, scholar Ling Hin Li pointed out that in Beijing, 53.85% of total housing belonged to private owners; in Shanghai, the number was 66%, and in Suzhou, 86%. Scholar Katherine believes that the much of the urban housing stock belonged to city governments. Professor Mo Zhang pointed out, “All private properties were either confiscated or transformed into public use, and all private ownerships were replaced by public ownerships.” Professor Clarke argued, by the end of 1950s, most urban land was in government hands; even a substantial amount of housing on the land was still privately owned.

subject to mandatory leasing would be under the control of the central state government, which “acted as an agent for private owners in exercising property rights such as entering into contract[s] with tenants and collecting rent.”⁷ (Solinger 1997, p.228). The central state government then paid rent to private owners, usually amounting to around 20% to 40% of collected rent (ibid.). Because of such restriction, private landlords became merely a nominal owner, whereas the municipal government exercised actual control (Clarke 2014). By the end of 1950s, most urban land belonged to the government, although some private land still remained in the form of owner-occupied housing (ibid.).

Starting from the Great Leap Forward, because available financial resources became fewer, the central government shifted its housing responsibilities to the local authorities.⁸ (McQuillan 1985, p.11). The socialization movement gradually transferred private commercial and industrial enterprises to private-public collective owned enterprises, and their real estates were gradually transformed to state-owned properties (Institute of Finance and Trade Economics Chinese Academy of Social Sciences & Institution of Public Administration of New York 1992, p.19). State-Owned Enterprises acquired land from local governments to build new apartments for their employees. (Wilhelm 2004). No matter the residents rented houses from private owners or work units, housing was offered to urban residents at extremely low rents.⁹ (ibid.; Li 1996, p.34). These cheap houses were actually provided to low-wage workers as a subsidy and showed that housing in the socialist economy was clothed with social welfare nature.¹⁰ In addition, when the housing ownership belonged to the state, in practice, households had permanent rights to live in their houses (Gu 1998).

During the Cultural Revolution, private housing was almost eliminated. The homeowner’s work units took over private homes without paying compensation whereas the central state government maintained forceful renting or taking “surplus” housing (Solinger 1997, p.228). In Shanghai, for example, a total floor area of 881,000 square meters was demolished (Li 1996, p.35). By the end of the 1970s, urban housing was predominately owned by the government (Liu 2008, p.307).

B. The land use reform in the early 1980s

Although the 1982 Constitution explicitly announced that all urban land belonged to the state, not all urban land belonged to the state at that time (Randolph Jr. & Lou 2000, p.73). A small portion of privately owned land still existed,

7 In practice, some private homeowners had to surrender their “surplus” houses to the central state government or the work units in which they worked.

8 Although the central government wanted to improve the quality of existing housing and build new housing, due to the lack of funding, technology, and coordination with local governments, the central government could not effectively upgrade housing. A survey showed that the central government had spent 225 billion *yuan* on public housing, far more than food, textile, or oil industries.

9 Housing rent only accounted for 1% of average household income.

10 In fact, prior to the 1987 Land Use Reform, in order to subsidize housing, the central state spent significantly more expenditure on housing than other industries.

including “homesteads owned by individuals and urban collective-owned land which used to be the land owned by self-employed individuals for their business.” (ibid.). Meanwhile, not all state-owned urban land was controlled directly by the state. Work units still firmly managed land that they occupied; they had permanent land use rights that the state governments took efforts to interfere with (Wang & Li 2009, p.91). Work units also owned constructions that were built on the land (Yeh 1997, p.60).

Land ownership and land use right transfer were still prohibited by the central government in the market, as real estate was not considered as commercial product itself (Li 1996, p.30). State governments did not have the right to sell land use rights, and therefore did not gain direct revenue or profit from land transfers (ibid.). It was estimated that the real estate industry accounted only 3 to 4% of China’s Gross National Product until 1987 (ibid.). One of the reasons “was mainly the result of antipathy to private landownership in China’s political leadership. ... Socialism was very much against private landownership for it created a privileged class of people who could exploit the labor of tenants.” (ibid.).

This rudimentary socialism brought about two negative outcomes. In the first place, since the state did not gain any revenue from housing and at the same time it had to subsidize it, it did not have incentive or adequate funding to maintain, improve the quality of housing and construct more houses (ibid.). The housing quality deteriorated in many places (ibid.). A survey conducted in the early 1990s showed that “nearly 60% of public housing was not equipped with private toilets and kitchens due to high cost of installation.” (Liu 2008, p.309). Housing was also in short supply; it was common for three generations of a family to live in one apartment.¹¹ (ibid.).

In addition, since the land and housing did not have a market value and the land market was strictly prohibited, the private sector had very low incentive in investing and developing housing (Li 1996, p.36). Housing was considered consumptive goods, not productive goods and therefore, “capital funds seldom were invested in housing construction or improvement.” (Kremzner 1998, p.619). Investment funds allocated to housing declined drastically from 9.1% in the mid-1950s to 2.6% in the 1970s (Bian, Logan, Lu, Pan & Guan 1997, p.225).

Under this backdrop, there was a heated debate between the central and local level leadership regarding whether land and housing should have a value (Tang 1987, p.3). Scholars and officials were gathered together to settle this issue through a common ground that eventually constitutionalized the transfer of land use rights in China (ibid.). One theory argued, “Land provides a valuable return, [or rent] in the context of a competitive market.” (ibid.). This theory claimed that it did not contradict Marx’s labor theory, as “the return from land [could] be used in exchange for goods which may be valued by the amount of labor necessary for production. ... What [Marx] argued was only that the part of that return attributable to the land itself should not go to any private party.”¹² (ibid.).

11 The average square meters in 1979 were 3.6 meters whereas in 1949 the average square meters were 4.5.

12 The problem that was not resolved by this debate was the nature of land revenue. Some scholars proposed that it was a land tax.

Deng's economic reform was essentially an effort to relieve state ownership of social obligations and gradually abandon the socialist nature of urban residential land and housing. During this reform, land ownership and property rights again played a role of instrumentality to achieve the state's goal to strengthen state landownership. The first effort was reclaiming the small portion of private urban land as state-owned land.¹³ (Zheng 2003). The 1982 Constitution announced, "All urban land belongs to the state." As a result, although private owners still maintained their private ownership over their houses, the land upon which the houses were built belonged to the state (Zheng 2003). These residents would have state land use rights (*ibid.*). This generated much controversy and opposition among property owners because (1) many of these houses were built a long time ago and were not registered¹⁴ (Zhen, Bi & Du 2009, p.16 &20), (2) when the state governments tried to register their land use rights, problems occurred because no information was available regarding the types of land use rights or expiration dates, (3) many homeowners objected state governments to register their land use rights as allocated land use rights because they worried that they would need to pay land use fees in the future (*ibid.*).

The second effort was that the central state government started to reduce investment in public housing (Mcquillan 1985, p.11). The policy behind the first housing reform policy in the 1980s was "the state, the work unit, and individuals share the responsibilities for housing investments, projecting that each would contribute one-third of the investment in new housing projects." (Bian, Logan, Lu, Pan & Guan 1997, p.225). Despite the fact that the central state government invested more in public housing projects, after 1978, it reduced its budget appropriations to work units for building new housing.¹⁵ (Bian, Logan, Lu, Pan & Guan 1997, p. 225). It was estimated that the central state contributed to urban public housing before 1978, whereas after, "Chinese work units controlled 90% of urban public housing. ... Only 10% of urban public housing was managed by local governments." (Lu & Perry 1997, p.10). As a result, work units had to raise funds by themselves.¹⁶ At the national level, as of 1990, work units housing occupied 59% of the housing space, municipal occupied 16% of the housing space, and private held space accounted for 24%.¹⁷ (*ibid.*).

Land tax is taxed to either owners or beneficial owner of the land. But as the state still held the landownership, it would not tax itself; it would tax user of the land. In this sense, the land users are in the same status of landowners.

- 13 In 1982, around 4.5% of urban land was still privately owned.
 14 It showed that less than 1% of such houses were registered or still had files.
 15 After the Cultural Revolution, housing was buoyed as a top priority among other things. From 1980 to 1985, the state's total investment in housing increased 21.3% of its fixed assets per year (in 1978, the number was 9.7% of its fixed assets), and in 1981 and 1982, the number was more than 25%, more than the U.S. (14.7%) and Japan (20.9%).
 16 Prior to the 1980s, work unit received funding for housing construction or housing investment from the central government, but after 1978, the work unit had the obligation to make investment out of their own pocket. "Between 1979 and 1986, self-raised funds by [work] units to build housing accounted for 60% of the total investment in new housing."
 17 This should not be confused with the percentage of investment. As of 1983, work units raised 57% of new investment, 26% came from state and 17% came from private individuals. Work unit housing was designed to relieve the social obligation of state

Deng started the first housing reform in April 1980 (Bian, Logan, Lu, Pan & Guan 1997, p. 223). Deng Xiaoping's housing reform showed the central state's desire to turn urban public housing into a profit-making project. His idea was to make public housing a commodity, "so that in the end the state can [be] released from its responsibility to provide housing as a welfare good." (Bian, Logan, Lu, Pan & Guan 1997, p.224). As early as 1984, Deng pointed out that "housing should become a profit-making industry contributing to the national revenue ... Residents should be allowed to buy their houses." (Mcquillan 1985, p.14). Deng indicated, "Rents should be changed to reflect housing prices so that people would feel that it was more rewarding to buy housing than to rent." (*ibid.*). Deng's economic reform largely abandoned the socialist nature of urban residential land and housing.

This article also points out that during the 1980s, although more sources contributed to the urban residential housing development, it still had a social welfare nature. For example, although private sectors were allowed to invest in housing and private funds were increasing, these funds accounted for a small share of total investments in public housing: from 1.9% in 1978 to 4.3% in 1982 (*ibid.*). Meanwhile, privately owned housing survived in some places after the Cultural Revolution (*ibid.*). In some places where private housing existed, it was restricted to one single dwelling (*ibid.*). Private landlord housing was very rare and was allowed only on a temporary basis (*ibid.*).

In order to mobilize more funding for urban development, the government also imposed social burdens on state-owned or urban-based enterprises. For example, in 1978, all urban-based enterprises were required to "contribute 5% of their profits to a fund for badly needed urban improvements – roads, sewers, schools, and parks." (*ibid.*). All housing agencies had to obey the national policy "on building standards, allotment standards and rental standards." (*ibid.*). Although the central state government direct investment share dropped relative to other investment sources, the state government still exerted control on leasing and managing the properties (*ibid.*).

This first housing reform policy failed in the end because it miscalculated the actual contribution ability of ordinary individual families and did not afford full ownership to property buyers (Bian, Logan, Lu, Pan & Guan 1997, p.240). As a 1983 report showed, urban employees' average wage was 826 *yuan*, whereas an average apartment of 40 square meters cost 10,000 *yuan*.¹⁸ (*ibid.*). This housing reform also clearly demonstrated the all-too-familiar instrumentality of property rights: boosting the state's financial income whereas not

government to provide affordable housing to its residents. But when a municipality could earn a profit through renting, it maintained its control of public housing. For example, Shanghai's public housing was predominantly owned and managed by the municipality. The Shanghai government gained surpluses after output costs to public housing, such as maintenance and management costs. It maintained about 30% of public rent or surplus for its new housing projects. Work units in Shanghai owned only 15% of housing stock, whereas in Beijing, work units owned 68% of housing stock.

- 18 In some places, where housing was offered at a lower price to promote sales, wealthier and more influential cadres quickly "swallowed nearly all the housing units on the market."

affording private housing ownership. Although the central state government wanted to promote privatization of public housing, “[t]he government was reluctant to award full ownership of housing purchased during the reform.” (Liu 2008, p.311). This lack of housing ownership was a major hurdle for the reform (ibid.).

C. The land use right reform from the late 1980s to 1990s

Starting 1987, the central leadership launched a deeper land use right reform, and a series of policies and rules were promulgated to segregate landownership and land use rights (Li 1996, p.37). The State Council recognized the transferability of land use rights in a free market, and created four special economic zones to test this idea.¹⁹ (Kremzner 1998, p.620; Tang 1987, p.14; Institute of Finance and Trade Economics 1992). Some local cities, like Shenzhen, had piloted a proposal to legitimize public land lease to developers through auctions or bidding (ibid.). In 1988, the Constitution was amended to allow “[t]he right of land use [to be transferred] in accordance with the law.” (ibid.). The Land Administrative Law was also amended in the same year to conform to the Constitution. Starting in the early 1990s, municipal governments have employed various methods to “consolidate and reinforce their control” over urban land, including reclaiming land occupied or owned by work units (Hsing 2008, p.36). This process of consolidating control of local state governments over land could be seen as a gradual loss of the socialist feature of urban land and expedition of marketization.

During the second housing reform, the state government wanted the individual homebuyers to contribute to the housing industry (Liu 2008, p.315). To achieve this goal, property purchasers were afforded larger property rights if they paid higher prices (ibid.). In 1994, the State Council issued “The Decision on Deepening Urban Housing Reform,” which provided that public housing should be sold “either at market price for high-income families or at prices based on construction costs for middle and low-income families.” (ibid.). This document also provided full ownership of housing to work unit employees if they bought housing at the market price (ibid.). This measure was aimed to encourage employees to pay market price for housing rather than rely on state subsidies (ibid.). Affording larger property rights to private

homebuyers became an instrument for the state to deepen and promote privatization of public housing. As a result, private homeownership increased, and public housing decreased, dramatically.

This land use right reform produced at least three results. In the first place, urban residential land and housing were no longer social welfare goods that were free or had no monetary value, but became the state governments’ coffers that ultimately become the largest revenue up to date (ibid.). Although land ownership could not be transferred, the price of land use right conveyance was in fact price of the land.²⁰ (World Bank 1993, p.2). Essentially, the state governments seized the monopoly power to transfer land use right as any other entities were prohibited from initially carrying out such activity (Li 1996, p.38).

Secondly, this land use right reform bred real estate development companies and professional real estate developers (ibid.). The first generation of such private developers had certain advantages either because of their unique relationship to government officials or party leaders or because of their unique social status (ibid.). In the early 1990s, real estate development companies were usually managed by or doing their business through state government agencies (Bian, Logan, Lu, Pan & Guan 1997, p.245). The most successful real estate brokers were either state unit staff members or officials of state agencies (Hsing 2008, p.62). While the real estate market was still immature in the early 1990s, the earliest practice of land use right conveyance was that the government still gave out land use rights for free or would charge a nominal fee (ibid.). This was especially true in the case of urban residential housing land, where the central government was eager to shift its burden to other sources.

At the early stage of land use right reform, the social obligations upon real estate development companies or developers were relatively heavy. Investors usually were required to invest at least 25% of total development fees before it could sell the land to others in order to deter land speculation (Li 1996, p.44). As a study conducted by the World Bank in 1992:

[Real estate development corporations] charged with carrying out inner-city redevelopment projects have often been required to make significant improvements to the base of community facilities provided in old areas (unless the site involved is very small), and to do so without receiving compensation from the district governments to which these facilities are transferred (World Bank 1993, p.24).

As China’s land use rights market was formally established in 1988, urban land became commoditized and more valuable (Hsing 2008, p.57). Coupled with the reality that central government’s revenue support had been greatly reduced, local municipal governments needed more revenue to cover their governmental expenditures (ibid.). As local state governments could gain a significant amount of reve-

19 The four special economic zones are Tianjin, Shanghai, Guangzhou and Shenzhen. Before 1987, Fushun, Liaoning province initiated a land survey and a land use fee schedule. More than 13.6 million square meters of land were reclaimed to the municipality. The municipality then redistributed the land, collecting about 13 million RMB of annual land use fees. It is unclear where these 13.6 million square meters of land came from, but the author assumes most of them probably came from work units’ property or private urban housing. The first land use transaction involving commodity housing occurred on September 26, 1987, in Shenzhen. The Shenzhen municipal government issued an invitation to bid on a 46,355 square meters piece of land for residential use. The bid price was 108,240,000 yuan and the land was sold to the Shenzhen center of China National Aero-Technology Import and Export Corporation. After this incident, many other cities started to experience commercializing land use rights. China National Aero-Technology Import and Export Corporation was a corporation established in 1979; it monopolized the trade of Chinese aero defense products and technology.

20 Deng described the economic reform as “crossing a river by feeling the stones.” From 1984 to 1992, most aspects of land use right were both unclear and ambiguous, such as rights and obligations of the state and the leaseholder. Most changes among regions were incoherent and land market development was uneven among different provinces. It was not until the 1990s when the economic reform was implemented in a larger scale.

nue from direct sales of land use rights or from land leases, land-related revenues became extremely important to the local governments' coffers (*ibid.*). Local municipal governments started competing with each other to expand their territories of land because the more land they acquired, the more revenue they got from lease of land use rights (*ibid.*). For example, in 1991, Shanghai's urban area covered 748.71 square kilometers, whereby in 1997, the urban area already reached 2643.06 square kilometers (Wu & Li 2002, p.23). Taking a glimpse at Chinese urban development over the last two decades reveals that almost all urban cities followed the same pattern.

Furthermore, the land use right reform directly diminished work units' property rights and further weakened the socialist welfare feature. Starting in 1991, almost at the same time as the land use reform, the central state government initiated a new housing reform.²¹ (Solinger 1997, p.241). The main goal of which was to promote commodification of housing in the urban areas (*ibid.*). The second housing reform could be seen as the states' effort to reclaim back work units' properties as state-owned land and to build commodity residential houses.

During the process of this reform, work units were obstacles to the territorial expansion of local municipalities (Hsing 2008, p.57). Work units had occupied a great deal of urban land since the establishment of the People's Republic of China.²² (Bian, Logan, Lu, Pan & Guan 1997, p.230). While the land that work units occupied was public, land use rights belonged to work units permanently (*ibid.*). Under the old work unit system, the role of local state government was limited because "most municipal governments had little or no role in land management and ceased to enact or enforce land use and land planning regulations."²³ (Kremzner 1998, p.619). More importantly, work units were largely independent of the control of local governments; they were subject to a "vertical budgetary and personnel system." (Hsing 2008, p.61). It was not easy for the state government to reclaim land from work units or other land users either (Zhu 2004). Statistics revealed that between 1988 and 1992, in Shanghai, most land use right sales occurred on agricultural lands (or "green-field" sites), not older urban land (or "brown-field" sites) because the sitting land users occupied most of the land (*ibid.*). As a result, within the old work unit property system, the process of commodification or privatization proceeded very slowly (*ibid.*).

Similar to the problems that occurred when the state government reclaimed private housing land in the early 1980s, the state government encountered additional problems when it reclaimed public land from work units. Because most work units originally acquired land use rights without a charge, under the new state-owned land use right regime, such

land use rights were deemed as allocated land use rights.²⁴ (Kremzner 1998, p.618; (Bian, Logan, Lu, Pan & Guan 1997, p.235, 238). According to the new law, when work units transferred their allocated land use rights, the transferees had to pay a land use fee to the state governments and the transaction had to be approved by state governments (Chengshi Fangdichan Guanli Fa 1999; Ye 2011, p.95). Accordingly, if work unit employees already obtained their houses and allocated land use rights from their work units before the reform, when they transferred their houses and land use rights to third parties, the transferees had to pay a land use fee to the state governments (Ye 2011, p.95). Initially, most work unit employees strongly opposed this rule, and argued that their land use rights should be considered granted land use rights rather than allocated land use rights (Zhen, Bi & Du 2009). This restriction was much harsher under the old work units' property regime, which did not require transferees to pay a land use fee to the state.²⁵ (*ibid.*). This process tremendously strengthened the state's power.

During this backdrop of the land use right reform, housing still entailed a social welfare nature within the work unit property system, albeit rents became somewhat commoditized. For example, in the early 1990s, less than ¼ of work units in Shanghai or Tianjin reported that they had sold their housing to employees; in 1995, about 20% of work units planned to sell commodity houses to their employees (*ibid.*). Yet a much higher percentage of work units had planned to offer subsidies to their employees (commonly around 30% of the market price) if they wanted to purchase housing on their own (*ibid.*). Also, a survey showed that in 1996, most commodity housing sold was re-allocated or redistributed by work units to their employees (*ibid.*). Meanwhile, the sale price offered to workers was extremely low compared to the market price (*ibid.*). Considering the wage levels at that time, the status of the worker, and the nature of public housing, housing purchased or built by work units was usually sold to workers at significantly discounted prices.²⁶ (*ibid.*).

The social welfare nature of work units' housing was also reflected by the restriction on the transferability of housing (*ibid.*). Work units still had ownership of the housing; workers had use rights, which could be inherited by the next generation of their families (*ibid.*). In some places, workers could sell a unit after five years, but had to give the work unit an option of first purchasing and accept a price that was lower than the market price (*ibid.*). Despite the fact that employees only had use rights and not actual ownership of houses, the price difference between use rights and ownership

21 The State Council issued "Opinions Concerning an All-Around Promotion of Housing Reforms in Cities and Towns" in 1991.

22 State-Owned Enterprises were the main recipients of urban public land, state budget expenditures, and housing development funds.

23 Most land use decisions were about the "sitting of manufacturing plans," and were primarily responding the need of economic planning. It was said that "many incompatible land uses, infrastructure failures and environmental problems" occurred because of "lack of coordination among enterprises and government units."

24 Prior to 1978, the central government played an important role in developing work units' housing projects because the central government contributed funding to work units. These work units, usually State-Owned Enterprises, were allocated land from the state without a charge and they usually would ask for more land rather than less, which was contrary to the will of local officials.

25 The benefit under state land use rights regime was to promise work employees' private ownership of housing and to upgrade quality of housing. Private ownership of housing, however, did not make too much difference on the value of houses.

26 The author estimated that a new apartment's price in 1996 was equivalent to five or seven years of a worker's salary whereas now a new apartment's price is almost 200 years of a worker's salary.

seemed insignificant, according to some statistics (Zhu 2004).

The rapidly growing demands and value of urban land after 1992 further incentivized local municipal governments to condemn these old constructions (ibid.). Municipal governments argued that land should be used in ways that generate the highest market value, such as luxury hotels, offices, shopping malls, or commodity housing (Yeh 1997, p.63). They wanted profit-losing work units and nonprofit institutions such as schools or hospitals to give way to the higher-market-value uses.²⁷ (ibid.; Stein 2006, p.17). Municipal governments also proclaimed to improve the living environment for urban residents (Stein 2006, p. 65; Logan 2002, p.31). They also acclaimed unified land planning and opposed the mixture of uses inside work units' compounds (Logan 2002, p.64). They also promoted the ideas of zoning, more efficient land use and adequate public facilities (ibid.). In practice, however, these promises were not fulfilled. Urban residents found their houses were demolished and developers took advantage of them (Liu 2008, p.315). Zoning system was still either not established or largely implemented in a lax way in many cities (ibid.). Public facilities were continuing to shrink in most cities. The robust social life that once thrived in work units had been eliminated.

Since the early 1990s, state governments started to tear down work units' compounds and reclaimed the land that was once occupied by work units (Li 1996, p.65). Although state governments encountered problems, they first targeted those compounds with a less tightly knit community (ibid.). They also promised these residents with excellent prospects. Since then, the featured socialist "tight-knit community" was gone and the public nature of property was also eliminated (ibid.) As we see, however, homeowners were the true losers, as their property rights were instrumentalities in achieving the state's goals.

After the municipal government reclaimed its control over urban land, it quickly established its own real estate development business and partnered with commercial developers to undertake new real estate projects.²⁸ (Yeh 1997, p.65; Zhu 2004). One immediate outcome of tearing down work units' land was the sale of land use right to land developers (Yeh 1997, p.65). During this process, municipal government clearly abandoned the social and public nature of urban housing.

It must be noted that initially the state demolished these old houses to improve the living conditions of local residents (Liu 2008, p.315). When the state's funding was used up for

construction, commercial developers took the lead to finish urban renewal projects in the late 1990s (ibid.). Selling land use rights gave the state governments a decided advantage as they gained huge profits from selling them to commercial developers (ibid.). These sales also freed the governments from providing affordable and habitable housing to residents. As urban land became more valuable, these new homeowners soon found they were in limbo because "they were no longer in the government's favor." (ibid.). Deep-pocketed developers had the favor of the government (ibid.). Commercial developers did not pay adequate compensation and relocation costs to residents, which aroused great opposition (ibid.). Whenever conflicts arose, the state governments chose to stand in favor of commercial developers, which made the situation worse (ibid.). Although these demolitions were mostly under the flag of "redevelopment of dangerous and old districts," the option of enabling these residents to move back to their original neighborhoods was not a primary concern for the government (Wilhelm 2004, p.265). In this process, the state government was the biggest winner as it regained the urban land.

There are significant problems derived from the urban land use right and housing reforms that still loom large in China today. The first problem created by this land use right reform was that it created fierce competitions between central state government and local state governments, which continues to be problematic today. It is apparent that whoever controls land gains significant profit. In fact, since the beginning of this reform, the central state government and localities had conflicts about the nature and split of the land revenue from the transfer land use rights. For instance, the Ministry of Finance argued that a land tax should not be a purely local revenue issue (Tang 1987, p.8). Instead, it argued, "The land tax revenue [should] be incorporated in the unified tax-sharing system existing between the central and local governments." (ibid.). In practice, various local governments on the state's behalf carried out the actual conveyance of land use rights (ibid.). This created great tension between central and local governments. On one hand, central government wanted to share the land revenue from the state and did not want local state's power to become too expanded. On the other hand, the central government worried about things that local governments did not consider, such as farmland loss, social stability, food security and environmental protection. These conflicts worsened the social obligations that should be attached to both central and local governments, because these conflicts were power competitions between the governments; their focus was not on the public.

The second problem created by this reform was that urban residential land lost its social welfare nature. In the early days of People's Republic of China, housing was a strict social and public product, which the state offered to its residents. After the land use right reform, although the housing stock was increased because investment in housing boomed, housing was still allocated through the work unit system in the mid-1990s (Logan 2002, p.10). In the mid 1990s, about 45.7% of housing built in Beijing was self-built and joint-built by work units, and another 54.3% was commodity housing (ibid.). Around half of the commodity housing was used for "compensation and the municipal government." (ibid.).

27 Furnishing housing as non-commodity to their employees rendered these work units or State-Owned Enterprises uncompetitive and losing profits. State governments could not gain profits from these work units or State-Owned Enterprises, nor could they enjoy profits from the urban real estate because work units allocated houses to their employees at very low prices.

28 For example, in 1992, Shanghai city government drafted "Shanghai Municipal Ordinances on Urban Land Management," which provided 70% of the revenues from land use sales should compensate the dislocated residents and build infrastructure, remaining 30% went to central government (5%), municipal government (12.5%) and district government (12.5%). It was not until 2001 when Shanghai city government clarified the compensation for land users; the residents received 80% of the compensation and work units received 20%. This compensation plan almost recognized private ownership of residents despite the fact that work units owned the land and the housing.

However, this situation was significantly changed after 1996, when it was estimated that 65% of housing completed in Shanghai was commodity housing, and “sales to individuals at market price also increased.” (ibid.). For example, in Shanghai, the market price (without government subsidies) for a unit of commodity housing was 24,000 *yuan* per square meters (Rhee & Blank 2012). Homes built under affordable housing programs were sold around 14,213 *yuan* per square meters (\$2,163 per square meter) in 2010. (Shanghai Daily 2011). Without government subsidies, a standard 90 square meters apartment with two bedrooms and one bathroom, is 2.1 million *yuan* (\$310,000) (Rhee & Blank 2012), more than 65 times of Shanghai household average disposable income.²⁹ (Shanghai Daily 2011). Not only did the market price exceed affordability for ordinary Chinese citizens, but also the original restriction to property owners regarding maximum number of houses was also eliminated. A survey showed that “more than half the buyers of new homes [owned] multiple homes, and the overwhelming majority of buyers [belonged] to the top 10 to 20 percent income brackets.” (Rhee & Blank 2012).

The third problem was that land right holders, particularly the state, abandoned social obligations that should be attached to urban land. This is clearly shown by the reality that state governments have teamed up with developers to generate more revenues or make profits (Rhee & Blank 2012). In the first place, the state sided with developers to build high-rise, commercial projects or expensive houses, at the expense of replacing poor urban residents (Liu 2008, p.315). In addition, because the costs of vacating dense residential areas drove up costs of development, both the state and developers preferred vacant land (Stein 2006). Furthermore, because the state’s interests and developers’ interests were in harmony, as long as the state got cash, it was lax in enforcing laws and regulations (ibid.). For example, developers could evade the two-year legal restriction of commencing construction by submitting an additional fee to the state government (ibid.). The state government has low incentive to enforce land use or zoning regulations when these regulations are in conflict with governmental interests, and thus the state tended to favor developers in its zoning policies (ibid.).

III. Conclusion

During the land use right and housing reforms in the 1980s and 1990s, Chinese property rights played an instrumental role to achieve the state’s goal of strengthening state landownership. These reforms have resulted a complete loss of the socialist welfare nature of urban land and housing. The reforms also have caused the abandonment of social responsibilities that were attached to urban land and housing.

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²⁹ It was estimated that in 2010, Shanghai residents’ average disposable income was 31,838 *yuan*, according to 2010 US-RMB exchange rate.

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