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**Government Land Ownership and Public Housing:
The Experiences of Hong Kong and China**

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Abstract

Should the majority of the land stock be owned by the government, what would happen if there is a soaring demand on housing? Experience in Hong Kong shows that (a) high land and housing prices would be resulted; and (b) public rental housing were forced to be built to meet the political demands from the poor. This paper compares the striking similarities between the experience of Colonial Hong Kong and recent trends in mainland China. Despite contrasting political systems, and this paper tries to (a) explain the emergence of public housing by means of government ownership of land, rapid urbanization, and soaring house prices; and (b) investigate if the public housing sector in China will grow into an enormous proportion like that of Hong Kong.

Key words: government land ownership, public housing, housing prices, Hong Kong, China.

Introduction

Comparing Hong Kong and China, there are striking similarities in government land ownership, rapid urbanization and economic development. Recently, the question of the desirability of public housing is raised in Beijing and other parts of the country. This paper tries to investigate whether a system of massive public housing will be resulted in mainland China, as it had in Hong Kong over the past fifty years.

Government Land Ownership and Dependence on Land Sales

Hong Kong started as a colony in 1841. This was a direct result of the Opium War in 1839, which was fought, from the British point of view, to open up free trade into China. Hong Kong, a free port after this War, did not impose any tariff on

imports or exports. Apart from license fees, the Colonial government's major incomes were derived from land: land sales, land rent, and rates on properties.

Lands in Hong Kong were first auctioned to trade merchants in 1841, even before the formal signing of the Treaty of Nanking in 1842. Initially, land prices were not high, but annual land rents were substantial. In 1853, 57% of the government incomes were from land sales and ground rents. This percentage ranged from 38% in 1990 (Gazette, 1853-1991) to 30% in 1997. The Hong Kong government had always been financially dependent on land. Given this background, lands in Hong Kong really work like a bank to the government: lands were deposited physically all over the territory, and when the government needs the cash, just auction some. This system does not work should the majority of land be owned by the private sector.

As a result, even after 170 years of intermittent land auctioning, the Hong Kong government still owes 95% of the land stock, 84% of which are even not built-up in any form. (HK Annual Reports, 1950-2009).

Meanwhile, in mainland China, the history on land ownership had developed very differently. There was basically a feudal land system before 1911. After the Chinese Revolution in 1911, a system of private land ownership was still, by and large, enforced by Kuomintang, although in many ways the land system was frustrated by military conflicts amongst the Kuomintang warlords, and with the Japanese during the Second World War.

The Communist Land Reform started in 1946. Basically land and other properties of landlords were expropriated and redistributed in this land Reform. And after the Peoples' Communes and the Great Leap Forward in the 1950s, collective agricultural land ownership was established. Starting in 1978, these collective lands were assigned to individual families under Household Responsibility Contracts. By now, there are basically three types of land ownership in China: (a) land for family village-houses (宅基地); (b) Collectives' land (集体所有土地); and (c) state owned land (国有土地). Except for a small portion of land on which family village-houses were built, lands in China were basically non-privately owned.

In December 1987, land use rights were first auctioned in Shenzhen. State-ownership rights on land were then separated from use rights; thus allowing private ownership of land use rights, for a given number of years, to be bought and sold.

After 1989, the rights to develop land were decentralized - down to local "xian" level governments. Xians in China should not be confused with counties in the west. Xians are much smaller: there are altogether 2,860 xians in China. Each is, on average, 3,000 square kilometers in area; and 0.45 million in population. These xians could sell land development rights to prospective developers and industrialists; and share 3/4 of the land sales proceeds with Beijing as well as with other higher level governments. On top, the xians share 1/4 of the valued-added taxes, which are levied at 17% on any production on the land sold upon development. Xians rely on these incomes to build infra-structures and other facilities to attract even more investors. See Cheung (2008).

Under this xian system, land sales income, plus subsequent value-added taxes, were the keys to government finance; and hence there is a financial dependence on land sales.

Urbanisation and Housing Demand

In the midst of all these changes in land ownership and development rights, the speed of urbanization in China was phenomenal. It just took 30 years for the urbanization rate to grow from less than 20% up to 46% in 2009. Urban population in China is now 0.622 billion. See UN Statistics (2007). Together with the corresponding growth in income, house prices had increased tremendously, while cities had sprawled into rural areas. By 2009, premier Wen Jai Bo had to dictate a "red-line" for arable land - 1.8 billion mu! This is approximately 1.2 million square kilometers, or 12.5% of the country's entire surface area. Wen was in the opinion that this is the absolute minimum area of arable land to ensure the country's survival, and should not be stepped across. Wen's red line might have undermined the country's expectation on housing land supply, and house prices rose sharply after his announcement.

In Hong Kong, population had kept on increasing for the last 170 years - except for a temporary drop during the Japanese occupation in World War II. Post war population soared from less than a million up to 7 million in 2009, mostly due to economic refugees from the mainland. Light industries developed rapidly until the 1970s, when trade and financial sectors took over. With ever rising income, the demand for housing in Hong Kong is enormous. Yet until now, private residential units are allowed to build on only 4% of the territory's 1,100 square kilometers of private residential land. The rates of land sales were just far too slow to meet the demand; and hence the Hong Kong government had been accused of adopting a high land price policy.

Sir John Cowperthwaite, the Financial Secretary of the Hong Kong in the 1960s, who was often referred as the architect the Hong Kong free market system, started a policy of not-intervening the free market. But with high rents and housing prices, refugees were left either sleeping out in streets or squatting on dangerous slopes. Until 1953, the Hong Kong government basically did nothing to solve the problem - except a rent control ordinance in 1947, which in fact had prevent old buildings from being re-developed.

A fire on the Shek Ki Mei squatters in 1953 left 53,000 homeless overnight. This incident forced the Hong Kong government to face the problem she created. It set up a Housing Authority which had ever since been growing in size. It is now the biggest developer of the world - some 28 million square meters had been completed since 1957; and it spends 5.5 billion annually. Half of the 7 million population in Hong Kong now lives in housing units rented, or sold, to them by the Housing Authority. See Hong Kong Housing Authority Annual Reports (1960-2009).

Will Public Housing Flourish in China?

Public Housing in Hong Kong is expensive to finance, and is only affordable by a government with strong financial capabilities. Hong Kong had developed into a major entrepôt and international financial centre, land sales and other tax incomes had allowed public housing to grow to an enormous size.

Similarly, land sales and other taxes had also provided China with strong financial means. Together with other common factors of government land ownership, rapid urbanization and soaring housing prices, the question now is whether the public housing sector in China will grow into an enormous proportion, as Hong Kong did. To answer this, one may have to analyse the problem from the viewpoint of the dissipation of rent, and of institutional change.

Suppose there is a collectively-owned piece of farmland in the sub-urban area of Shanghai, which is desirable for development. After painful negotiations with the villagers for compensation, the xian government may either include this land into its annual quota of land development; or leave it aside for public rental(廉租房) and/or affordable (经济适用房) housing. Given land sales incomes and value-added taxes, the xian government would be in a much better financial position should this land be sold to property developers. Public rental and affordable housing are less desirable financially, and should only be built if this is forced by Beijing.

Comparing to Hong Kong, the Housing Authority is granted land for the sole purpose of public housing. To satisfy the public demand for housing the poor, expansion of the Authority is desirable to officials who run the Authority under three major constraints: (a) that the Hong Kong government would constantly set aside a substantial budget for public housing; (b) a stable and well paid salary scale within the Authority compatible to the general civil service's; and (c) that corruption via qualifying the applicants for rental or affordable housing is not viable. And in fact the cost of arranging bribes is high in Hong Kong - given the presence of the Independent Commission against Corruption.

In mainland China, however, there are no signs that the central government would set aside a sizeable budget for local public housing, nor expand the local civil service to run public housing. It is likely that the local xian governments have to find financial resources of their own.

As regards the question of corruption, the rate of corruption prosecutions was small compared to the number of government officials all over the country. Renting public housing to unqualified relatives may benefit the officials, but such benefits are small and often slow in rewards. Selling affordable housing to unqualified wealthy people would be a much larger benefit, as prices are paid in full as soon as the flat is sold. Hence, opportunistic officials may find (a) selling lands outright to developers more desirable, as he may have to negotiate a deal with only a handful of potential land buyers; (b) affordable housing would be less desirable, as the number of negotiations increases compared to land sales; and (c) public rental housing would be least attractive, as potential benefits are small and slow.

The central government can, of course, devise a comprehensive scheme to enforce clean public housing operations all over the country. But without a well developed tax and personal income reporting system in the country, cleanliness in these schemes would be costly to enforce.

To change the current government system in China to one closer to Hong Kong's, the cost of changing the institution may be too high to be feasible. Hence, we may foresee that the public housing, particularly public rental housing, may not grow to enormous proportions comparable to that in Hong Kong.

This analysis might be re-confirmed by Singapore. Singapore may not depend on land sale incomes as heavily as Hong Kong and China does, but the overwhelmingly majority of land in Singapore is still owned by the state. With a rapid increase in population and in economic development, housing prices, within the small private sector, increased tremendously. Yet with the similar constraint of a relatively clean government, a well-paid civil service, and a substantial budget of provident funds constantly set aside for public housing, public housing had now grown to accommodate 90% of Singapore's population.

Conclusion

It could be argued that the institutional arrangement governing the use of a common resource is chosen to minimize rent dissipation subject to the real world constraints. These real world constraints could only be changed if the cost of changing them decreases. It seems that the costs of introducing public housing into China is decreasing due to political pressures; and yet the costs to expand the public housing sector, into a proportion which would dominate housing supply, are still high.

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