



3 Affordable housing in China

Can inclusionary zoning regulation work?¹

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1 Introduction

1.1 Unaffordable housing

According to a survey provided by SINA,² one of the top four Chinese web portals, the top concern of Chinese citizens may be the cost of housing (see Figure 3.1). From 2004 to 2010, in metropolitan areas such as Beijing, the average price of housing increased from 4,747 Yuan/m² to 17,151 Yuan/m², growing by 23.9 percent annually, twice as rapidly as nominal income.³ A similar trend could also be observed in the US, where housing prices also increased at twice the CPI index between 1973 and 1980 in Los Angeles.⁴ However, housing affordability has become an even more severe problem in China, with the housing-price-to-income ratio rising to 7.4 in 2011, twice as high as in the US. The ratio in metropolitan areas alone, such as Beijing and Shanghai, is higher than ten.⁵ This is compared to the acceptable level proposed by the World Bank of 46 (World Bank 1992). Housing has become increasingly less affordable in China over the past decade, with housing prices considerably higher than the income of the ordinary citizens.

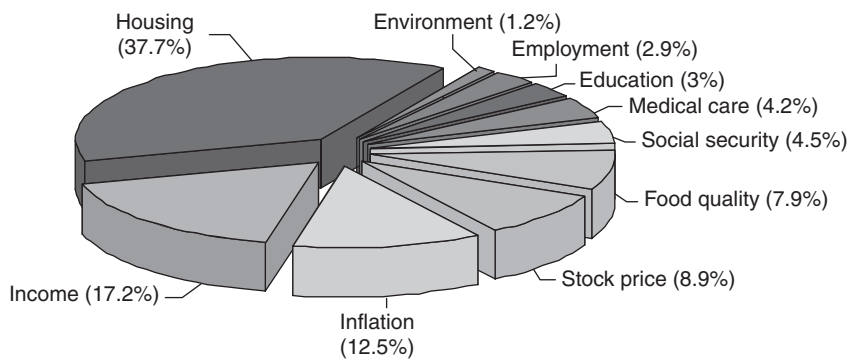


Figure 3.1 What is a Chinese citizen's top concern? (source: SINA – see note 2 to this chapter).





1.2 Housing as a human right

1 It is commonly accepted that an adequate standard of living, including housing,
2 is an important human right and that governments have a political responsibility
3 to ensure this right for their citizens.⁶ Given this principle, it is legitimate for a
4 government to adopt regulation to assist low or moderate income citizens with
5 securing housing.⁷ However, scholars have criticised the efficiency of govern-
6 ment intervention in the housing market and questioned whether the goal of ade-
7 quate housing for the citizens could be achieved via regulation (Groves *et al.*
8 2007).

9 To fulfil this political responsibility, many countries, including European
10 nations with traditions of significant welfare states, the US, and the so-called
11 'Asian Tigers', have adopted public policies to alleviate the housing affordabil-
12 ity problem, such as financial aid for buyers or renters and housing market regu-
13 lations (e.g. rent control) (Groves *et al.* 2007). With unaffordable housing as the
14 top concern for many Chinese families and the government's responsibility to
15 make policy to ensure the people's right to adequate housing, government regu-
16 lation is justified.

2 Affordable housing, financial constraint and inclusionary zoning regulation

2.1 Affordable housing boom

24 The housing affordability crisis has become a common concern among Chinese
25 people; moreover, it is clear that excessive spending on housing has damaged
26 the ability of Chinese citizens to consume other goods, aggravating the imbal-
27 ance in the Chinese economy and the reliance of the economy on the housing
28 industry.⁸

29 Therefore, alleviating the housing affordability crisis has become an urgent
30 government priority, with regulation regarded as the most important instrument
31 to address the issue. The Chinese government has announced an ambitious
32 affordable housing project in the *Twelfth Five Year Plan* (2011–2015), with the
33 State Council aiming to provide 14 million units of public rental housing, while
34 the Ministry of Housing and Urban-Rural Development (MoHURD) is set to
35 build 36 million units of affordable housing.⁹

36 As the central government sets its sights on affordable housing supply, local
37 governments have also announced their goals for increasing affordable housing.
38 For example, Beijing plans to provide one million units of affordable housing
39 under the *Twelfth Five Year Plan* (2010–2015).

2.2 Financial constraints

40 The MoHURD reported that in order to finish the ten million units of affordable
41 housing slated for 2011, it would cost about 1.3 trillion Yuan.¹⁰ Even though the
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central government promised to provide a subsidy of 150 billion Yuan for affordable housing, that remains a challenging fundraising goal.¹¹ The subsidy would be a small proportion of the total required funds, while the local governments must provide 350 billion and collect 800 billion on the market.¹²

Although the budget for public expenditures by local governments is in the trillions, revenue from the sale of land is also in the trillions (3.3 trillion in 2011). Nevertheless, these revenues are insufficient for the expenditures. By 2011, the local debt was as high as 10.7 trillion, a significant increase from 2009. Therefore, it would be reasonable to predict that local governments already on a tight budget would have difficulty investing in an affordable housing project. To increase investment from local governments, the Ministry of Finance provides some preferential policies to allow local governments to issue bonds. Local governments issued 200 billion new bonds in 2011.¹³ With local governments constrained by tight budgets and with affordable housing unattractive to social capital because of the uncertainty of the market, financing became a major challenge. As a result of this lack of funds, many affordable housing projects remain large holes in the ground. Not surprisingly, MoHURD has already discussed adjusting the previous goals.¹⁴

2.3 Using inclusionary zoning regulation to solve the financial constraint

Even if the previous affordable housing supply goal is adjusted, the financial pressure on local governments would still be quite high. ‘Inclusionary zoning’ (called Peijian in Chinese) is a strategy to address this financial constraint, increasing the supply of affordable housing without direct investment from the governments. Under inclusionary zoning requirements, developers, rather than the government, must build a certain proportion of affordable housing in the course of ordinary development. The obvious advantage of an inclusionary zoning regulation is that it helps provide affordable housing without a major public financial commitment (Lerman 2006), making it attractive to governments on a tight budget.

In China, the inclusionary zoning regulation was provided by the State Council after housing prices increased dramatically in 2010. Many local governments also drafted the inclusionary regulations to require developers to provide a certain percentage of affordable housing in the new development. For example, a municipal level regulation enacted in Jilin required the developer to include 5 per cent of affordable rental housing. Other cities, such as Beijing and Hangzhou, have also adopted the inclusionary regulation but have not codified these requirements through local ordinances.

In these provisions, the allocation of the cost of the inclusion is not clear, but the developer directly bears much of the cost of inclusion because the local government does not discount the price of land or provide financial support.¹⁵

It is noteworthy that while after 2010 many local governments have enacted inclusionary zoning, enforcement is quite limited. In the case of Jilin, researchers

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1 found that the rule could be enforced.¹⁶ In Beijing, to sell land in the southern
2 urban area, the local government withdrew the inclusionary requirement.¹⁷ The
3 same pattern emerged in other cities, such as Hangzhou, where in November
4 2011 the municipality withdrew the 10 percent inclusionary requirement to sell
5 11 pieces of land.¹⁸ Local governments regularly withdraw the inclusionary
6 requirement when they realise that revenue from the sale of land would be
7 affected.

3 Analysis of inclusionary zoning regulation in China

3.1 Comparative research

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13 Construction of affordable housing is also a problem in many other countries.
14 Local governments in the US face the same problem of limited public financing
15 compared to the huge demand for investment in affordable housing. The institu-
16 tion of inclusionary zoning helped governments with a tight budget: the first US
17 inclusionary zoning rule was originated in 1971 by Fairfax County, Virginia.
18 Such regulations soon spread to California and other states, particularly those
19 metropolitan areas with many immigrants, a severe residential affordability crisis
20 and high demand for housing. A 1991 survey indicated that 9 per cent of US
21 cities with populations over 100,000 had such regulations.

22 In essence, an inclusionary zoning regulation either requires (mandatory) or
23 encourages (voluntary) the developer of new residential or commercial housing
24 units to create a percentage of the units at reduced prices for moderate-income
25 and, less often, low-income families. In return, developers are provided with
26 incentives, the most common of which is a density bonus (Lerman 2006).

27 Compared to China, inclusionary zoning operates quite differently in the US.
28 While in many cities inclusion is mandatory, in some places, such as in Fairfax
29 County, the policy is voluntary, and the proportion of reduced-price housing
30 varies.

31 Some key terms in inclusionary zoning regulations are unclear, such as the
32 definition of low-to-moderate income levels and how to assess affordability.
33 Scholars are divided on which model of housing, rental or ownership, should be
34 provided, with some arguing that a rental model can solve the housing afford-
35 ability crisis more efficiently, while others are concerned that the rental model
36 would deprive low-income people of the opportunity to share in the increased
37 value of housing.

3.2 Who bears the cost of inclusion?

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41 In the US, some local governments are interested in inclusionary regulations,
42 while landowners and developers complain that such regulations are illegitimate.
43 It seems that local governments are not required to directly finance affordable
44 housing as a public resource, while developers directly bear the burden for the
45 difference between the price of the affordable housing and the market rate. As





Ellickson (1981) has pointed out, inclusionary regulation works like taxation: developers have to pay for the cost (the gap between the below market price of the affordable housing and the market price) or even directly pay in-lieu fees when the developers reject the inclusionary requirement. From an economic perspective, any taxation imposed on one party would distort the market mechanism, and that burden could be passed to the related parties. Therefore, although developers directly paid the inclusionary 'tax', in fact, all parties could bear the burden.

The real estate market can be further divided into two related markets: the land market and the housing market. In the land market, landowners are the sellers of the land, while developers are the buyers. In the housing market, developers supply the housing, while citizens are the potential purchasers.

Land serves as a productive factor, while the developers' demand for land is derived demand, so on the basis of their profit maximisation strategy in the housing market, developers' demand can be deduced as follows:

$$\max \quad \Pi = P(Q)Q - C(Q) = P(Q)Q - [WQ + B(Q)] \quad (3.1)$$

$P(Q)$ is the demand function of housing; $C(Q)$ is the total cost of housing, including WQ (land cost) and $B(Q)$ (construction cost); and W is the price of one unit of land. The first order condition of the maximisation of the profit requires:

$$\frac{\partial \Pi}{\partial Q} = P(Q) + P'(Q)Q - [W + B'(Q)] = 0 \quad (3.2)$$

To simplify this calculation, we can assume that the demand function and supply function (marginal cost function) in the housing market are linear form:

$$P^D = b - aQ \quad (3.3)$$

$$P^S = C'(Q) = W + B'(Q) = W + d + kQ \quad (3.4)$$

Thus, Function (3.2) could be simplified as:

$$\frac{\partial \Pi}{\partial Q} = b - aQ - aQ - [W + d + kQ] = 0 \quad (3.5)$$

We can deduce that:

$$W = (b - d) - (2a + k)Q \quad (3.6)$$

Function (3.6) is the derived demand function of land from the developers. It is apparent that such demand is in proportion to the consumers' demand for housing (b), and the elasticity of developers' demand for land is also in proportion to the consumers' demand elasticity for housing (a).

When inclusionary regulation is adopted, we can treat it as an analogue of taxation. If the tax rate is T , when the land price is W , the practical value of land





1 for the developers is be $Z=W+T$. In this case, the developers' demand function
 2 of land would be:

$$3 \quad Z = W + T = (b - d) - (2a + k)Q \Rightarrow W = (b - d) - T - (2a + k)Q \quad (3.7)$$

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 6 Thus, the demand curve of developers moves down by T .

7 Pursuant to the theory of tax incidence, it is fair to say that when a tax is
 8 imposed on goods, the tax cost would be shared by the supplier and purchaser;
 9 the proportion of the share to each party would depend on the comparative elastic-
 10 ity of each party. The smaller the elasticity is, the larger the share of the tax
 11 burden that it will bear. Generally, to maximise revenue from the sale of land,
 12 the local governments' supply elasticity would be about 1, while the developers'
 13 demand elasticity is in proportion to the consumers' demand elasticity. When the
 14 consumers' demand is less flexible and the developers' demand is less elastic,
 15 the developers bears the majority of the burden of the inclusionary regulation,
 16 $S=T-(W_1-W_2)$. The decrease in the land price $\Delta W=W_2-W_1$ is minor, and the
 17 decrease in the quantity of land sold $\Delta Q=Q_2-Q_1$ is also relative small. Under
 18 such conditions, the impact of an inclusionary regulation on the land sale
 19 revenue of local governments is relatively small, as developers and consumers
 20 bear the majority of the burden.

21 By contrast, when consumers' elasticity of housing demand is high, the situ-
 22 ation would be different. In this case, the demand curve in the land market would
 23 be shallow, causing the land price W and sold quantity of land Q to decrease dra-
 24 matically. As a result, local governments would bear the majority of the cost.

25 We can see a paradoxical position of inclusionary zoning for local govern-
 26 ments. On one hand, local governments expect to avoid direct expenditures on
 27 affordable housing through inclusionary zoning; on the other hand, the land sale
 28 price would decrease if the inclusionary zoning regulations were enforced. The
 29 share of the cost borne by local governments is related to the elasticity of
 30 the land demand. In a stagnant land market, the land seller would bear more of
 31 the cost in the land market, to the detriment of local governments. It is thus easy
 32 to understand why many local governments experiencing a stagnant land market
 33 withdrew the inclusionary requirements (the figure on the right side of Figure
 34 3.2) to maintain high land prices. By contrast, if the land market is prosperous
 35 (the figure on the left side of Figure 3.2) and land demand is less elastic, the land
 36 seller bears a smaller share of the cost, so local governments may be more likely
 37 to adopt the inclusionary requirement. In fact, as we will analyse in the next par-
 38 agraph, consumers in the housing market bear a large share of the cost of inclu-
 39 sion under these circumstances.

40 41 3.2 Pros and cons

42 Compared to the exclusionary model, the advantages of inclusionary zoning are
 43 readily apparent: first, it would allow the government to create affordable
 44 housing without direct investment; second, it can cure social isolation by
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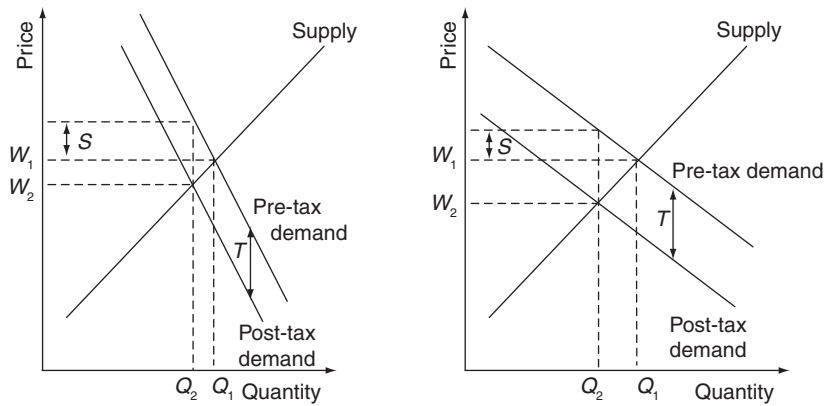


Figure 3.2 Supply and demand in the land market (2 elasticity).

integrating families from different income levels; and third, communities could be better located with access to better services than in the exclusionary model. The last effect would be similar to the case of *Tin Shui Wai* in Hong Kong (University of Hong Kong 2009), an example of a huge exclusionary project. The study found that the community was located in a remote position with high density, and that residents in that area have lower education and income levels with higher rates of unemployment.

Despite this, the debate over inclusionary zoning continues. In the US, the constitutionality of the inclusionary rule is in question. As shown in Figure 3.2, landowners would be affected, and some scholars regard the regulation as a taking (Ellickson 1981). The rule requires that developers sell housing below the market price, with land value underestimated as well. Because landowners were not compensated, the Virginia Supreme Court ruled that the inclusionary regulation constituted a taking. The local government later changed the regulation to a voluntary rule. China does not face this legitimacy problem, as the land sellers are the local governments.

If we continue our previous work in Figure 3.2, combining the mechanism of a housing market, we can apply a further analysis of the impact of developers bearing the burden in the land market $S = T - (W_1 - W_2)$. As shown in Figure 3.3, the supply curve of the housing market would move up by S . Pursuant to the theory of tax incidence, the burden of such a tax shall be shared by the developers and consumers. Generally, the elasticity of developers' construction costs (k) would be higher than the consumers' demand elasticity (a); thus, the tax would be mainly shared by the consumers. In this case, the housing price would be increased by $\Delta P = P_2 - P_1$.

Therefore, the consumers of the development, in which affordable housing is included, would bear some of the cost of the inclusionary regulation, as the developers' cost in Figure 3.2 would partially pass to them. Not surprisingly, the

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1 consumers' share of the cost is also related to the elasticity of demand and
 2 supply in both the land and housing markets. In a prosperous housing market,
 3 consumers' demand elasticity is low, so consumers would share more of the cost
 4 than developers. Because a prosperous housing market would increase develop-
 5 ers' demand in the land market, developer elasticity would be lower as well (the
 6 figure on the left side of Figure 3.2). As a result, the land seller would bear a
 7 small part of the cost of inclusion.

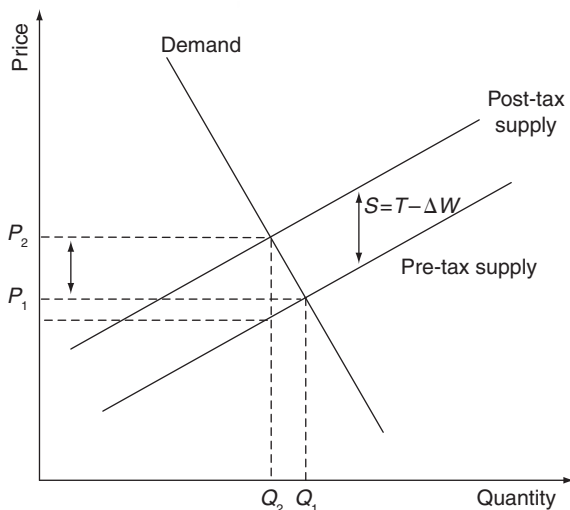
8 Therefore, we can conclude that consumers would bear a large share of the
 9 cost of inclusion if their demand elasticity is low. Thus, paradoxically – as inclu-
 10 sionary zoning is intended to provide affordable housing to the moderate and
 11 low income people – inclusionary zoning would result in consumers paying
 12 more for development, ultimately making the housing less affordable.

13 Moreover, from Figures 3.2 and 3.3, we find that intervention in the market
 14 would inevitably cause dead weight loss, efficiency and total welfare would be
 15 harmed, and just as with rent control (Glaeser 2003), such regulations may dis-
 16 courage the quality and quantity of supply (Ellickson 1981; Powell and String-
 17 ham 2005).

18 4 Suggestions for improvement

19 4.1 Bind the interests of the government with the interests of the 20 public through mandatory inclusionary zoning requirements

21 As analysed in Figure 3.2, local governments in the role of land seller share the
 22 cost of required inclusionary zoning, therefore decreasing their revenue. How
 23 will local governments react to this situation?



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Figure 3.3 Supply and demand of the housing market.





If we remove the veil from the local governments, it is apparent that the real decision makers are the bureaucrats. Local political leaders care mostly for their own self-interest in the form of promotions. At the local level, economic growth (GDP) is among the most important factors for a bureaucrat's promotion (Bo 2002; Edin 2003). Since the 1990s, economic growth has been an important tool to maintain the government's legitimacy, and therefore, GDP has become the major index for evaluating a bureaucrat's performance. Therefore, promoting GDP development has become the central task of local governments. The most important strategy for supporting economic development is through government investment; thus, the economic structure in China is investment oriented. With Chinese investment contributing more than 40 per cent of total GDP, local bureaucrats are extremely interested in maintaining GDP growth through a high proportion of investment in infrastructure, for instance. Investment can also improve facilities and contribute to the steady growth of the land price, which would increase local government revenues. In short, land price is essential for GDP growth and government revenue, and therefore, it affects the promotions and self-interest of bureaucrats. Creating affordable housing through inclusionary zoning requirements may serve the public interest and moderate- or low-income people, but doing so at the cost of GDP and revenue would damage the self-interest of bureaucrats. What would bureaucrats choose? The poor enforcement of inclusionary zoning regulations has answered the question.

Under the present circumstance, bureaucrats' self-interest is connected to land sale revenue, which sometimes runs counter to the public interest (inclusionary affordable housing). If mandatory inclusionary zoning requirements are adopted, affordable housing must be supplied in any housing development. This requirement would remove the ability of local governments to withdraw the inclusionary requirement at its discretion. To obtain revenue from the sale of land, local governments will be forced to accept the inclusionary requirement, achieving 'interest binding' through mandatory inclusionary zoning regulation.

This idea can be explained with help from the theory of Stigler (1971) and Peltzmann (1976) to analyse the interests of the decision makers (local bureaucrats). G represents the self-interest of bureaucrats; S represents the public interest; λ represents the weight of the self-interest. The function of the interests of the local bureaucrats could be described as Function 3.8:

$$\text{Max } U(G, S) = \lambda G + (1 - \lambda)S \tag{3.8}$$

If λ is close to 1, the local bureaucrats do not care about the public interest; if λ is close to 0, the public interest is vital to the local bureaucrat. In this condition, the public welfare would be considered the first objective for the bureaucrats, and a bureaucrat's promotion would be connected to his public reputation.

Function 3.9 demonstrates the possible range of the two interests.

$$s.t. \begin{pmatrix} G \\ S \end{pmatrix} \in F(x) \tag{3.9}$$





1 X represents the possible regulations, as different regulations will differently
 2 affect bureaucrats self-interest and the public interest. $F(x)$ is the frontier of the
 3 regulation (see Figure 3.4).

4 In an ideal political regime, the self-interest of bureaucrats would be subjected to the public interest, so λ will be close to 0, and the focus would be on
 5 how government regulation could follow the maximum of public interests; thus,
 6 the decision function of the government $U_0=S$ would be a vertical line. When
 7 the government aims to maximise the public interest, the optimal regulation is at
 8 point A , and the public interest is maximised at point S_A , while the self-interest
 9 of the government is 0, $G_A=0$.

10 In China, a bureaucrat's self-interest may be a dominant factor for his or her
 11 decision making. In this case, $U_0=\lambda_a G+(1-\lambda_a)S$, the optimal regulation is at
 12 point C , $S_C < S_A$, $G_C > G_A=0$.

13 We address the following two factors in discussing regulation in China:
 14 knowledge and decision making. First, knowledge is a factor because, in prac-
 15 tice, the regulation may not be at the frontier line due to the lack of knowledge
 16 or information, and therefore, the practical decision function may be $F'(x)$, which
 17 is inferior to $F(x)$. In this case, the public interest would be also Pareto Inferior
 18 to the level on the frontier. If we can improve the knowledge level, the function
 19 would move outward to the frontier. Second, decision making is a factor because
 20 if we can increase the impact of public interest and make the regulation function
 21 shift from point C to point B , more considerations would be given to the public
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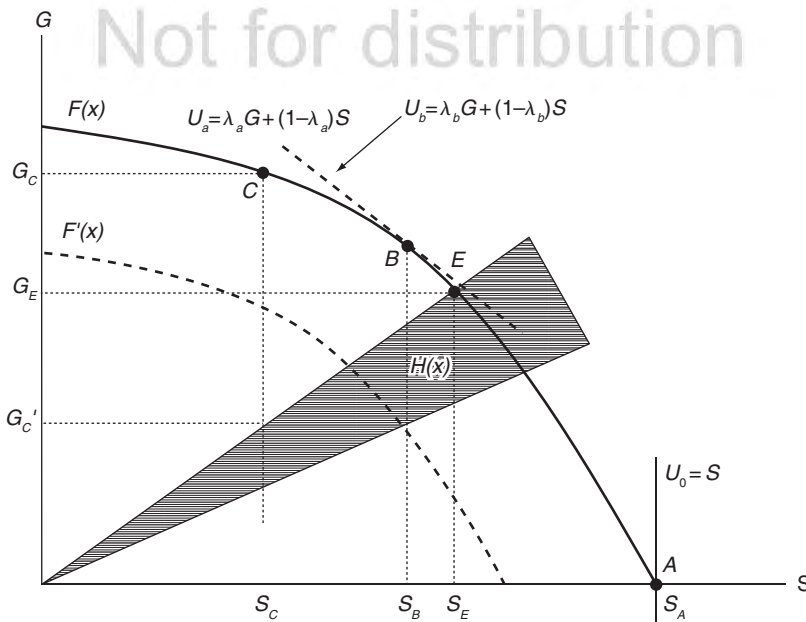


Figure 3.4 Decision function of local governments.





interest. The regulation function would be $U_b = \lambda_b G + (1 - \lambda_b)S$ ($\lambda_b < \lambda_a$), and the optimal regulation would be at point B , $S_B > S_C$.

As scholars, governments, enterprises and citizens are all involved in the discussion on affordable housing, the knowledge exchange process will continue to push the regulation frontier outward. Moreover, experience from foreign efforts to address affordable housing could be synthesised by China, nearly resolving the knowledge limit. However, if we consider the decision-making factor, we may find that such ideas would not be adopted by local governments, causing the regulation to remain only at point C .

According to the traditional research framework of regulation, the regulation which eventually will be implemented is that which can reflect the self-interest of the government. Therefore, the affordable housing plan would always face the present difficulties. Under the present political regime, citizens are largely unable to monitor local governments, and central government cannot obtain enough information because of serious information asymmetry.

If we could bind the public interest and the self-interest of the local governments, a more favourable decision for the public might be made. This ‘interest-binding’ regulatory model could be expressed as follows (Function 3.10, shaded part of Figure 3.4.):

$$\begin{aligned} \text{Max } U(G, S) &= \lambda G + (1 - \lambda)S \\ \text{s.t. } \begin{pmatrix} G \\ S \end{pmatrix} &\in H(x) \subset F(x) \end{aligned} \tag{3.10}$$

Compared to the traditional model, the interest-binding model connects the interests of the bureaucrat (fiscal revenue and promotion) and the public interest in inclusionary affordable housing. A government must give consideration to the public interest when pursuing their self-interest. As shown in the function, the previous optimal point C would no longer be acceptable, because if the government pursued the public interest at the level S_C , its available self-interest would be at point G_C . In order to maximise its self-interest, the optimal regulation would be at point E , as self-interest at point E is higher than G_C ($G_E > G_C$), while the public interest $S_E > S_C$.

4.2 Government should bear more costs to alleviate the distortion of the market mechanism

As previously explained, the situation in China is unique because the land sellers are the local governments, which may remove certain obstacles to implementing the inclusionary rule. Since the government has the political responsibility to assist citizens and solve the housing affordability crisis, it would justify the losses sustained by the local government, as the land seller, due to the inclusionary zoning regulation. If the local governments could bear more costs by reducing the selling price of land, the ordinary housing consumer would pay less and the quantity of development would be maintained.





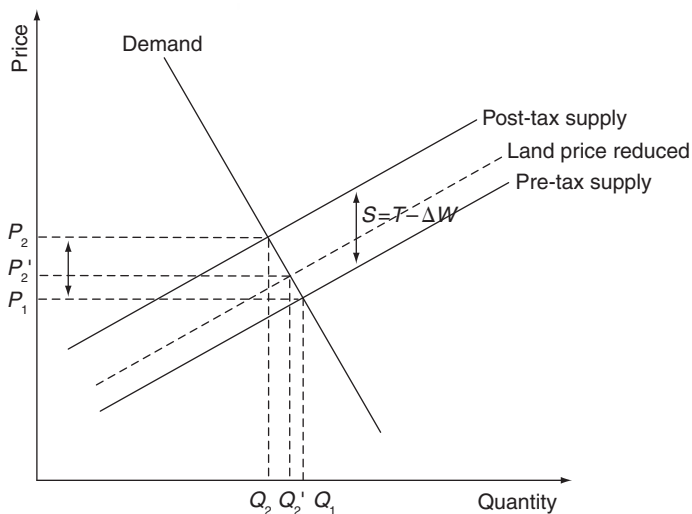
1 In Figure 3.5, we continue our analysis from Figure 3.3. The inclusionary
 2 regulation would decrease the housing supply and increase the price for the
 3 ordinary consumer, but if the government can bear the burden by reducing the
 4 land price, a new supply curve would be formed, as the reduction of land prices
 5 would offset part of the cost to the developer (and this saving would then pass to
 6 the consumer). The new housing price would be P_2' , while the quantity of supply
 7 is at Q_2' , so the distortion of the price mechanism would be alleviated as
 8 $P_2' - P_1 < P_2 - P_1$ and $Q_1 - Q_2' < Q_1 - Q_2$.

10 **4.3 Reform of the monopolised land grant system and the fiscal**
 11 **arrangement**

12 There are several additional noteworthy facts that have contributed to the prob-
 13 lems in the housing market beyond the normal market failure.¹⁹

14 First, the system for granting land use rights, which has been criticised by
 15 many scholars, played an important role. Because in China the local government
 16 is the only legitimate body able to grant the right to use land, the primary market
 17 for land has been totally monopolised by the local government. As a result, the
 18 market is severely distorted and characterised by a high ratio of rent-seeking
 19 behaviours, and dead weight loss is extremely high. Since the housing market is
 20 closely connected to the land market, the housing market in China is also
 21 seriously distorted, with both the land and housing prices becoming extremely
 22 high under the monopolised land supply.

23 Second, the fiscal arrangement has driven local governments to pursue non-
 24 tax revenue via the sale of land. After 1994, China instituted tax reforms that
 25 caused the proportion of local governments' fiscal revenue to decrease from



26 *Figure 3.5* The case when the government reduces land prices.





almost 80 per cent (1993) to 45 per cent (1994). Despite this reduction, the proportion of local governments' expenditures remained at 70 per cent, resulting in a significant imbalance (Zhou *et al.* 2004). Non-tax income thus became increasingly more important to the local governments to offset the decrease in tax revenue, and selling land is considered one of the best ways to obtain non-tax income (Zhang and Li).

Therefore, the skyrocketing prices of housing in China could also be attributed to the monopolised land market and the current fiscal arrangement. In addition to increasing the affordable housing supply, it would be equally important to reform the land market and the fiscal system.

5 Conclusion

As shown by our analysis, the most ambitious affordable housing programme is challenged by financial constraints. From comparative experience, it is apparent that inclusionary zoning could be a useful instrument to alleviate the financial burden of the government, particularly because in China local governments also act as the land seller. The interests of local governments would be affected under the inclusionary zoning regulation, so the impulse of local governments to give up the inclusionary requirement to maintain high land prices and revenue must be addressed. Making inclusionary zoning mandatory would provide an interest-binding mechanism for the local government in enforcing inclusionary zoning regulation, as the local governments would be unable to sell land unless the inclusionary requirement is satisfied.

Unlike in other countries that have experimented with inclusionary zoning, the unique land situation in China justifies the policy, because the cost of inclusionary zoning could be borne by the local governments in the role of land sellers.

If the government bears a large proportion of the cost of affordable housing by reducing the land price, the distortion of the market mechanism would be alleviated, allowing the inclusionary zoning regulation to work more efficiently.

In summation, local governments in China have the ability to make inclusionary zoning regulation with less distortion and less controversy, but to do so, they will bear the cost of inclusion in the sale of land.

Notes

- 1 This study is sponsored by the Program for Young Innovative Research Team in China University of Political Science and Law.
- 2 The survey was carried out by the SINA website in order to investigate the top concern of the ordinary Chinese people before the annual National Congress in 2011. Online, available at: <http://survey.finance.sina.com.cn/result/55835.html> [accessed 29 June 2012].
- 3 China Statistical Yearbook, 2005 (Table 6-38), 2011 (Table 5-38) 'Average Selling Price of Commercial Houses by Use', and China Statistical Yearbook, 2005 (Table 10-15), 2011 (Table 10-15) 'Per Capita Annual Income of Urban Household by

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