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# Exploring the ‘Middle Ground’ between State and Market: the example of China

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## **Abstract**

*Studies of housing systems lying in the ‘middle ground’ between state and market are subject to three important shortcomings. First, the widely used Esping-Andersen approach assesses only a subset of the key housing outcomes and may be less helpful for describing changes in housing policy regimes. Second, there is too much emphasis on tenure transitions, and an assumed close correspondence between tenure labels and effective system functioning may not be valid. Third, due attention has not been given to the spatial dimensions in which housing systems operate, in particular when housing policies have a significant devolved or localised emphasis. Updating Esping-Andersen’s framework, we suggest a preliminary list of housing system indicators in order to capture the nature of the housing systems being developed and devolved. We verified the applicability of this indicator system with the case of China. This illustrates clearly the need for a more nuanced and systematic basis for categorising differences and changes in welfare and housing policies.*

Keywords: China, housing regimes, indicators

## **1. Introduction: contrasting regimes**

The still high growth rates of the BRICS and large numbers of Asian and African countries<sup>2</sup>, are not only central to recovery from austerity in the OECD economies but also underpin the shifting, longer term patterns of global economic power. The key issues have been widely debated (Jacques 2009, Stiglitz 2002) and there has been a steadily growing literature on the patterns and consequences of housing sector change (Maclennan et al, 2014). The story of housing transformation in China is well charted from the work of Zhang (2000, 2004) onwards and has covered accounts of market evolution (Lu, 2010) as well as reforms in the provision of public and affordable housing (Wang 1992, 1995; Wang and Murie 1996, 2000).

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<sup>2</sup> See O’Neill (2013) for a discussion of the expanding set of fast growing and fast urbanising, but currently low income, countries that are dominating GDP growth in the current millennium. Although growth rates have slowed into 2015 they remain high, or instance china is still reportedly achieving a 7 pc growth rate for 2014-15 when most affluent OECD countries are in the range 2 to 3pc.

However, since 2012, there has been a recurrent concern that housing market instability may threaten progress in China. The policy question is no longer simply the scale of the market sector created in China but the efficiency and stability of these new markets (see Dreger and Zhang, 2013; Chen et al., 2014; and Cao and Keivani, 2014). These developments, arguably, question the conventional tenure-based frameworks that are used to describe and categorise housing system change within and across countries and suggest, instead, a new emphasis on the functional features of the systems being created.

In recent years there have been substantial attempts to place China's housing system change in an international context, most notably Stephens (2010) and Wang and Murie (2011). The main arguments in this paper respond to and build upon the arguments of these two important papers. These reviews shared similar conceptual approaches but addressed different questions. Stephens, on the one hand, was particularly concerned with how China's housing transition contrasted with transitions in Eastern Europe. Wang and Murie, on the other, used a detailed account of Chinese housing policy changes to argue for a new approach to international housing studies. Whilst they stressed that China was following a different and distinctive reform path, Stephens, paying due regard to both the conventional (Esping-Andersen) welfare regimes perspective and the World Bank's market change indicators, reached the opposite conclusion, that the Chinese experience was not substantively different from that of the former Soviet transition states.

This paper shares much of the same background account of housing system change in China. However, at this stage, it is not primarily concerned with comparisons across different national housing systems. Instead the main emphasis here is to illustrate how policies change within a nation but set in a broader policy framework, i.e., *when housing policy regimes are regarded as more than welfare regimes*. The principle aims of this paper are two-fold. The first is to support Wang and Murie's emphasis that with emerging economies and the advent of market oriented policy approaches, the Esping-Andersen framing exercises, which largely stemmed from the reform of welfare states in Western Europe prior to the 2000s, may not now constitute an adequate basis for understanding differences and changes in mixed housing systems and policies. This paper responds to Wang and Murie's (2011) call to explore and describe the broad 'middle-ground' between state and market in national housing systems, but considers that the 'neo-liberal' label is too reductionist to satisfactorily describe system change. Second, having done so, we want to contrast our conclusions on China's housing transformation with those of Stephens' (2010).

It is important to be clear on the conceptual limits of this paper. Firstly, like both Wang and Murie (2011) and Stephens (2011), we use Esping-Andersen's (EA) categories and measures of change as a starting point to discuss China's housing evolution. Secondly, whilst EA was devised to make contrasts across countries and over time, it is not uncommon, as in the studies cited here, for the conclusions about change in a single system to be referred to the EA categories. Clearly our study is aimed at a single system in transition over time and understood in that way may serve as a pilot case study for wider application to other single or multiple nation studies. Thirdly, this study is not intended as a theoretical departure but it is not atheoretical either. EA's theoretical contribution was a high level framework for categorising and understanding broad changes in welfare systems. Our paper is not intended to challenge the broad approach of that work but is rather aimed at suggesting ways in which contemporary housing system change can be better described and understood.

Three aspects of the EA approach are identified as in need of updating in order to better characterise ‘middle ground’ housing regimes. First, we argue that the EA framework assesses only a subset of key housing outcomes. We believe a wider set of concerns need to be considered in managing a national housing system. Secondly, the paper argues that housing studies focus unduly on tenure shares, with the assumption that there is a close correspondence between tenure labels, system functioning and the housing outcomes. That correspondence cannot now be assumed and it is essential that characterising housing policies and policy changes are based on new housing system functioning and outcomes criteria. Finally, localism has become a major defining characteristic of housing policies. Here we take a broad view on localism, regarding it as the growing autonomies enjoyed by sub-national and local authorities, greater freedom given to local communities and rising housing heterogeneities between different places within the same national state. This eclectic definition of localism extends its applicability out of western countries to many emerging, transformative states, such as China. In consequence, housing research has to have more regard to multiple local regimes co-existing within national spaces (Maclennan and O’Sullivan, 2013).

These conceptual challenges are set out in Section 2. More detailed discussion of possible ways forward in charting housing systems and transitions are discussed in Section 3. This is accomplished by linking the ‘social’ regime literature and applied economics approaches, and connecting them to the currently neglected use of housing indicators. The application of this approach to the recent evolution of China is presented in Section 4. The concluding section 5 highlights some future directions for housing studies that aligns not just with social policy but, broadly defined, new approaches in public management.

## **2. Housing systems: wider outcomes, complexities and real dimensions**

Housing studies link different intellectual perspectives to facilitate cross-disciplinary views on processes and policies. Debates on housing research have largely been led by social-political interests (Donnison, 1967; Harloe, 1985; Kemeny, 1995, Stephens, 2010) but also by political economy scholars such as Ball and Morrison (2000), Whitehead and Yates (2009), and Maclennan (2008). Malpass (2008, p2) has argued that social researchers have tended to view the housing sector as a creation of the welfare state and focussed on its internal structures rather than its wider connections and outcomes. Conversely, he argues, economists paid more attention to the housing market rather than the provision of public services, and stressed the wider economy connections of these systems rather than considering their functional, internal characteristics (though a contrasting view on housing economics can be found in Maclennan (1982)). As Wang and Murie now call for a new, broader perspective in studying housing policy regimes, there may be merit in blending these different ‘socio-political’ and ‘applied economic’ approaches.

The social tradition in housing studies focusses on classifying broad housing policy approaches (or regimes) in terms of how they prioritise and address income inequalities. Within this tradition, there is a substantial amount of work that tries to categorise the varieties of welfare states (for example, Titmuss (1974) and Donnison (1967)), which in turn support their observation and comparison of different systems. Among this rich literature, EA’s long established categories of social regimes (democratic, corporatist and liberal), are typically linked by housing researchers with different housing arrangements (such as Hoekstra, 2003). Social democratic approaches involve the removal of housing allocation from the market mechanism, the delinking of rents paid and dwelling costs, the removal of speculative and

supernormal profits from land and housing provision systems, as well as a state commitment to house and co-locate a wide spectrum of income groups. Corporatist approaches recognise more diverse routes to housing support for poorer households, such as the family, the church and other charitable means and are also associated with less radical redistributive objectives and lean towards supporting the broad status quo. Liberal regimes are associated with households making consumption decisions within markets and (usually) limited income redistribution (via non-earmarked supports) to the less well off.

EA's categorisation framework is consistent with, and been used by, a range of theoretical perspectives. Similarly, there are different ways of not only defining the 'middle-ground' but also describing and interpreting it. The approach adopted here is derived from the published (European) housing studies literature, which is primarily shaped by interests in social policy and poverty; and the analyses of housing economics, which have usually addressed wider aspects of housing systems. We emphasise housing economics as political economy, recognising that market and non-market failures and monopolies exist and that income distributional outcomes matter. Markets can be studied and their shifts described without implying approval of outcomes and their changes. This underpins our interest in better description of market change than usually involved in the typical application of EA. It also draws upon (the now quite old) new public management approach that emphasises how assets and systems are managed (and not just owned) and aligned with outcomes, and hence the interest here in moving away from tenure (asset ownership) as being the lead descriptor of system change. The final theoretical connection is to link analysis of system change to the emergence of understandings of localism/devolution in housing policy autonomies (MacLennan and O'Sullivan, 2013) that are currently leading to more significant regional and metropolitan differences within national systems. Of course recognising multiple market outcomes, varieties of structures and roles within a housing system, and territorial differences within nations suggest need for a renewed multi-country understanding of contemporary, cross-national housing system change. But that task lies well beyond the scope of this paper. Indeed, we also recognise that more, multiple, synoptic measures of change need to be developed and calibrated for more detailed analysis in China. This paper offers first step rather than final strides into the 'middle ground'. These issues are addressed below.

### *2.1 All the big outcomes*

A singular focus on the social objectives of housing policies bears the danger of neglecting how regimes are formed and modified to address significant environmental and economic consequences of housing outcomes. Housing policies are not driven solely by beliefs about the required extent and best means of income redistribution. The modern context for housing policies, that Wang and Murie want to address, is a public management framework that seeks to align specific sector policies, such as housing, health and education, to impact upon a range of major policy outcomes, such as economic competitiveness, environmental sustainability, wellbeing, market failures as well as income redistribution. Detailed explanation on the interfaces between housing and all these different dimensions falls beyond the scope of this paper. Instead, attention here is given to the social and economic aspects of housing which are discussed further in section 3.

Acemoglu and Robinson (2013) have argued, in relation to economic policy measures, that apparently partial policy changes may have to be adapted in order to maintain functioning political coalitions. Social policies are similarly adapted so that the multiple dimensions of policy require simultaneous analysis. Different kinds of housing system outcomes proliferate

when broader ranges of policies are subjected to political trade-offs. National administrations may choose to shift away from redistributive measures associated with economic policy whilst still wishing to achieve fairer social objectives. For instance, prior to the GFC, both the governments of the UK and France were committed to expanding non-market housing provision to promote social inclusion at the same time as their economic strategy measures were becoming more market oriented. Equally social goals can shift without changing economic policies. In the BRICS countries there has, since 2000, been a rising commitment to the reduction of inadequate housing for the poor whilst economic growth has remained the predominant policy goal and with housing policy increasingly seen as part of more widely defined economic development packages (MacLennan et al, 2014).

This is important for two reasons. First, as noted above, housing policy regimes have to be understood in relation to how they impact *all* the multiple, major goals of a policy and not just social policies. Secondly, the existing theoretical framework amplified by the EA approach, seems to offer most clarity about the extreme cases, of pure socialism and free markets, which rarely occur. Real political economies and diverse policy outcomes from good housing provision gives scope for much more complex policy stances to emerge, so that theorising the ‘middle ground’ – to paraphrase Wang and Murie (2011) – is not only challenging but central to the task on hand. The existence of hybrid goals of policy in western economies, reducing welfare states, and emerging BRICS suggests strongly that the real conceptual and empirical effort in housing research has to lie in developing ways of describing change within the ‘middle ground’.

## *2.2 Tenures are crude system proxies*

A second concern with the reductionism of the EA framework is the focus on housing tenure. Cuts in the share of public housing are usually interpreted as a weakening of a social democratic commitment to income redistribution, community participation and neighbourhood diversity. When other system outcomes, such as the cost and effectiveness of service provision and the potential monopoly problems of public ownership are recognised, then the reduction in public housing provision may have the opposite effect. In some settings, the move to more pluralistic forms of rental provision and more diverse tenure options in poorer neighbourhoods may have a more potent, positive redistribution capacity<sup>3</sup>. In some European countries, such as Spain, Norway and Ireland, the private rental sector, through the use of housing allowances to tenants, is increasingly sharing the responsibility of social housing and housing ownership sectors in meeting the needs of low income households and immigrants (Jones et al., 2012).

There is a strong case for arguing, that indicators of system functioning, rather than tenures, are the key to tracking transition (see Section 3 below). However, the default position for housing studies is to revert to tenure transitions (see, for instance, Wang and Murie, 2011 and Boehm and Schlottmann (2014)). This dichotomisation is both too imprecise and too aggregative to proxy housing policy effects on social outcomes. Market and non-market systems are defined not just by the property ownership but also by how they plan, design, produce, price, manage and allocate housing. It is the functional features of systems, not

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<sup>3</sup> A universal failure of public housing is not being argued here. However a case can be made that in some settings a move from public to non-profit ownership may have net benefits in the long term wellbeing of the poor and, in consequence, reliance on public tenure shares as an indicator of social redistribution is misleading.

aggregate tenures that need to be analysed within countries and contrasted across them. An 80 percent home ownership rate does not mean the same in Norway, Greece and China, especially in relation to redistribution objectives.

### *2.3 Big outcomes, but local regimes*

A third difficulty is that housing policy regimes for most nation states involve not just national government but the approaches of provincial, regional and municipal levels. Where autonomies in housing policies are distributed across different orders of government, political choices (Esping-Andersen) and cultural/ideological differences (Kemeny) that shape regime choices for low income housing provision may differ from region to region. Local 'regimes' are discussed in Cochrane et.al. (2001). Cross-jurisdictional diversity in housing policies is usually lost in the reductionism of national level descriptions.

The distribution of different autonomies across orders of government is not a minor detail of housing policies but one of their defining features. Housing outcomes are usually driven by multiple level interventions that must all, eventually, play out in local housing systems. Local regimes matter in housing, planning and land policies. There is, then, the possibility, especially in larger complex states, that the policy aims and regimes of local governments may be different from, and run counter to, those of the national state. The impacts of multiple regimes are most likely to be apparent where national and local governments have defined, separate, functional responsibilities. Maclennan et al. (2014) note that social goals for housing are more widely embedded in India and Brazil within local rather than national government. This is reflected both in the markedly high income inequality indices for both countries and in the low share of GNP devoted to social protection programmes. National governments in Brazil have been more concerned with the financial and macroeconomic aspects of housing until this millennium.

China is different. After a mass marketisation in the 1990s, social policy aims, including housing measures driven by the national government, returned to prominence in the first decade of this century (Chen, Yang and Wang 2014). This emphasis on social concerns by the highest level of government is increasingly rare in modern housing policies, not least after the GFC. Whereas variety in choice of policy regime arises from differences in economic development, culture and ideology or practical politics, the existence of regional and local differences means that typifying 'Chinese' or 'British' approaches to housing policies is always problematic. Housing policy emphases are not the same in Hong Kong or Beijing, nor in England and Scotland. And this intra-national regime diversity becomes a salient issue the greater the growth of local autonomies in housing and social policies (Maclennan and O'Sullivan, 2013). Within and across nations, housing system change needs to be described with real system indicators that capture regional variety. This is particularly true when we move from a 'social policy' to an 'urban policy' perspective on housing studies.

### **3. Tracking housing system change**

Commentators, including Stephens (2010) and Wang and Murie (2011), recognise some of these limitations. Yet regime change assessments tend to begin and end with international contrasts of overall tenure change. A more system-oriented approach could be achieved by linking the EA 'social' regime literature and applied economics approaches that involve the use of housing indicators. This may seem an obvious approach but few studies of housing differences and changes have used statistical rigour to explore transitions, and the use of

housing indicators, promoted by UNCHS since the early 1990s (Angel et al. 1993) has waxed and waned. Even fewer studies have explained explicitly the sequence through which policy actions, comprising the policy regime, are linked to changes in housing outputs and, in association with other policy activities, to broader policy outcomes. Local housing planning approaches that undertake extensive local housing system analyses rarely develop summary system outcome indicators. City/urban performance measures, such as the annual 'Cities Outlook' published by the Centre for Cities in the UK, are also notably weak in relation to characterising housing outcomes. In consequence, regime change and housing outcome analysis is still at an early stage in the use of statistical approaches. This paper does not, obviously, produce a definitive, extensive description of a housing system. But it illustrates, with selected indicators and case study, how a more rigorous approach might develop.

Data availability over longer periods is a key limitation in constructing a comprehensive framework. This is not only because countries tend to measure different things, but even when they seek to track similar outcomes, their definitions may vary considerably. In order to illustrate what current approaches tend to miss, this section will discuss 'ideal' ways in which housing transition might be better described, whilst recognising the limits of what can be presently done. We draw upon the (now almost historic) World Bank Housing Indicators Program, which included ten key indicators to measure five major housing outcomes, including price, quantity, quality, demand and supply (Angel et al. 1993, p23). We nevertheless differ from the above in two respects: first, while the Indicators Program focussed entirely upon market outcomes, we seek to conjoin its economic consideration with a fuller articulation of EA's social approach. Therefore the indicators chosen included not only tenures, but also proxies for changes in the operational features of both market and non-market sectors. Demonstrating this framework in China (section 4), we show that promoting home-ownership and the creation of effective market systems are not the same thing. In consequence, simply tracking the changing private/public tenure balance says little about the nature of the systems being created. Second, we try to position housing policy within the wider policy system and outline a tentative action-outcome trajectory that is largely missing in the Indicator Program. Together, the plausible indicators have to confront how systems are actually organized and splits between market and hierarchy in organising production, as well as how key housing outcomes relate to income and wellbeing (Maclennan and More 1997). Figure 1 illustrates our conceptual framework as well as some of the key indicators to be used.

Insert Figure 1 here: Conceptual framework of housing system indicators

To show how this conceptual framework is helpful in understanding the 'middle ground', it is beneficial to start with the extreme cases: the ideal 'non-market' and 'market' systems. The non-market system refers to a pure socialist approach where market allocation and pricing functions have been removed; whereas the pure market system, similar to the liberal regime described by Esping-Andersen, comprises lightly regulated or unfettered markets allocating resources through price signals and in which the roles of government and redistribution are limited. Pure 'market' and 'non-market' regimes now exist only as theoretical ideas.

Based on the key indicators suggested in figure 1, a primarily non-market housing system will have the key features of:



- 1) Tenure structure: public ownership of housing is most commonly associated with non-market approaches to provision. However public tenure share does not provide an adequate proxy for how 'welfare' is produced and distributed, not least in tenant involvement in key decision making processes. A further qualification is that non-market provision may also be delivered by non-state providers such as housing associations (Maclennan and Chisholm, 2013), and there is the possibility that non-profits may become 'hybrid' organisations that deliver both for-profit and non-profit housing. In addition, where households find shelter in private rental housing there may be significant controls on rents that either suspends or modifies the market pricing mechanism (Scanlon and Whitehead, 2008). It can be expected that nowadays governments use a mix of these very different mechanisms to deliver adequate low-income rental housing, so identifying transitions requires knowledge of these different provision systems.
- 2) Distribution: regardless of the particular forms and structures of ownership, or degree of 'public' monopoly in provision and distribution, the criteria for property allocation are critical in non-market systems. We would expect housing and other state benefits to be allocated according to a social rationing hierarchy instead of purchasing power. The real experiences of social housing systems in these regards, and how they would deliver 'welfare', are again not well proxied by tenure.
- 3) Subsidies: State and non-profit housing provision involves production subsidies that may simply appear in the government budget or as grants or subsidised loans to provision entities; subsidies to low income households in private markets could be delivered through income related housing allowances. The cost of mortgage guarantees provided by governments are often important 'subsidies' in systems with large home-owner sectors but are usually invisible in government accounts and cross-system contrasts. The tax treatment of housing production, mortgages and other costs may also be significant. Small or falling budgets for non-profit housing do not per se indicate a withdrawal of housing related support, so the key indicators are how the overall per capita level of combined housing subsidy and housing tax expenditures are, and how their distribution across socio-economic groups changes as systems transform.
- 4) Regulation and supply chain: Non-market providers also have to choose the key systems that design, plan, build, price, maintain, manage and renew homes; pure state housing systems would internalise all these activities. Land would be provided by the state, they would use state construction enterprises and materials, pricing would reflect administrative charges, maintenance decisions would also lie with the state, and providers neither buy nor sell properties in the market. Within each 'social' sector it is important to establish patterns of 'market and hierarchy' in provision and how they are changing (Maclennan and More, 1997).
- 5) Finance: Expenditure to support non-market housing would be sourced directly from the state budget without any use of private finance; rents in non-market provision are (usually) set by administrative rules that vary from country to country, indeed from municipality to municipality. Key questions are how the mix of public/private finance changes over time and how the extent to which administered rents falls below market rents changes

A primarily market-based system would, by way of contrast, rely on market driven demand and supply responses. However it is important, in principle, not to confuse reliance on a market mechanism within the housing sector with a minimal commitment to subsidised housing outcomes. Governments can choose to use markets for social policy (arguably welfare) ends rather than simply accept market outcomes free of subsidy. Some countries may choose broadly progressive and high levels of housing support through market

mechanisms, for example Norway. Others may inject substantial tax expenditures and subsidies, usually the former, and generate quite regressive outcomes (such as the USA). Building, planning and other regulations within market systems may be either weak or strong depending on whether governments see the market as a device to be used or a system to be 'obeyed'. Just as public systems have to interface in complex ways with markets for finance, materials, labour and services, the market systems are required to act within regulatory frameworks for land, mortgages and construction that might be more or less strong in constraining supplier-consumer behaviour. Market and non-market tenure shares say relatively little about the housing policy intentions of governments across space and time, unless there is some understanding of the operational features of markets, including key regulations, and the ways in which they are managed.

Corresponding to these broad indicators for the non-market system, key indicators for the market sector include:

- 1) Tenure structure: usually dominated by private home-ownership, but there are still, even increasingly, likely to be significant private renting sectors, often with involvement of small scale 'individual' landlords. Small renters would be the norm compared to the more organised, professional housing associations.
- 2) Distribution: market mechanisms play the most fundamental roles in shaping what is produced and who occupies what.
- 3) Subsidies: State subsidies in market systems may take diverse forms, such as tax subsidy, but not through below-market-price disposal of state housing assets. There is not always a progressive pattern of housing subsidies. Housing market separations of different income groups is widely prevalent and socially accepted.
- 4) Regulation and supply chain: Land use planning, with land usually owned by private providers, may be more or less strict and more or less attuned to economic, social and environmental goals. Planning systems that wish to emphasise economic responsiveness and favour elastic supply responses are likely to be relatively weak with limited state powers to intervene in land markets (Malpezzi and Mayo, 1997). Large scale turnover or second-hand private supply features in relation to new construction with a well-developed real estate pricing and transfer sector.
- 5) Finance: The spread, sources, terms, costs (relative to key base interest rates) and regulation of mortgage finance are key features of housing market systems. In emerging countries, such as Brazil, mortgage finance may less than a fifth of purchases and even in some higher income countries, most notably Italy, family and non-market mortgage sources may be important. Loan finance for mortgages may be sourced quite directly from the capital market or through the banking system. A key aspect of these systems is the extent to which main mortgage rates are at a premium above base interest rates, and whether fiscal instruments influence that gap. Governments, concerned about housing and financial sector stability, regulate mortgage lending terms, such as the maximum length of loans, loan to income, loan to value ratios and the key features of equity withdrawal products. Transformation of these features is typical in economic development, although in quite different ways. Financial sector deregulation and asset (housing wealth) based welfare are the major policy shifts nowadays (Kemeny, 1995; Schwartz & Seabrooke, 2008; Smith and Searle 2010), which have significant implication both for the wellbeing and suitability of market choices for lower income households and the financing of welfare for the elderly. They are important aspects of housing differences and changes.

These cameo descriptions of ‘public’ and ‘market’ systems portrayed above characterise the ‘extreme’ scenarios that lie at the opposite ends of the EA spectrum of social-democratic, corporate and liberal regimes. We are not here proposing new EA categories but focussing on describing housing systems that lie-between the prototype categories and using selected key indicators to do so. In line with Aalbers and Christophers (2014) and Barlow and Duncan (1988), we regard housing tenure as hardly sufficient to define these ‘ideal’ systems, let alone the more complicated hybrid forms. Furthermore, when housing transitions are ongoing, it is essential not simply to chart the emerging extent of market tenures, but to understand the failures and efficiencies of these markets in terms of how tax, subsidy and planning powers are used (or not) to deliver social and other national housing policy goals which are critical to ‘wellbeing’. In this regard, our interpretation of the ‘middle ground’ is broadened to include not only those static profiles displayed by indicators, but also how the system is evolving and moving from one ‘pole’ to another.

The indicator framework we constructed is a simple one, yet the direction we are trying to point to – linking ‘social’ regime with applied economics via housing indicators – is far from easy, especially in empirical studies. In order to test the applicability of this conceptual work in real life, we applied it in the case of China, as this country is undergoing major housing system transformations from a state housing regime to somewhere in between.

#### **4. Evolution of the Chinese housing system**

Good accounts of housing system transition in China already exist, and there is consent of the close relationship between China’s housing policy choices and its wider economic and social development rationales (Chen 2009; Lu 2010; Wang and Murie 1996, 2000; Wang et al. 2012; Wang and Shao, 2014). In Maclennan et al. (2014), China’s long journey towards housing reconstruction was broadly divided into four stages: 1) The ‘experimental period’ between 1978 and 1988, when China’s initiatives in economic reform was set as the wider background, and its state housing system was incrementally transformed nearer to the social-democratic regime; 2) the ‘two-track’ period in the next decade, which is perhaps the most interesting period, as it contained non-market (sustained public work-unit housing), social democratic (disposal of state housing) and corporate regimes (emerging private housing). This seemingly contradictory combination reflected governments’ concerns for social unrest on the one hand, and the time needed for reforms in other complementary sectors to accomplish on the other (Wang and Murie 1996); 3) the ‘Marketisation’ period from 1998 to 2010, when China moved away from its socialist legacy and embraced the market system, which was partially fuelled by the need to boost domestic demand to recover from the Asian financial crisis and; 4) the ‘Rebounding period after 2010, since when there has been a noticeable shift from private homeownership to a renewed interest in public rental housing provision. But this should not be regarded as moving backwards as argued by Chen et al. (2014, p547), but an acknowledgment of the ‘complexity of urban housing systems in a modern market economy’.

China’s incremental transformation makes it difficult to pigeonhole this country into conventional regime categories (see Doling, 1999; Stephens 2010; Wang et al. 2012). This difficulty, as illustrated in section 2, is partly resulted from the poorly articulated ‘middle ground’. Conversely, China also provides a good example to study the middle ground, and demonstrates the applicability of our conceptual framework. In what follows, we will illustrate the use of this framework to identify the shifting profile of China’s housing system,

while recognise the potential interregional diversities in housing configurations and de facto regimes.

#### **4.1 De-commodification**

**Tenure:** Before reform, housing in China was regarded as a core part of the state welfare system, so heavily-subsided public rental housing dominated its housing tenure structures from the 1960s. Since the mid-1990s, homeownership has increased sharply. By August 2013, the urban homeownership rate had reached 87% (China Household Finance Survey 2014). Private renting, however, only emerged after the 2000s, promoted mainly by renting agencies. Nevertheless, renting is gaining popularity among the under 30s. According to a survey by Ganji Net (2013), a widely used trading website, some 77% of those under 30s lived in rental accommodation, but they tended to start thinking of buying when they were about to form a family.

Regional differences were more noticeable at the start of China's reform, as different regions inherited different industrial structures. Figure 2 compares the housing tenures between Guangxi, Shaanxi and Chongqing in West China, Hunan, Hubei and Henan in Central China, Liaoning and Jilin in Northeast China, and Beijing, Shanghai, Guangdong in East China in 2000. Across these examples, purchasing former public housing, renting public housing and self-built homes were the three most important housing sources. Inter-regionally, purchasing former public housing was highest in Liaoning, Hubei and Beijing, where state-owned factories used to dominant the local economy. Renting featured significantly in East China where purchase prices were much higher. Self-built housing stood out in Guangdong and most inland provinces, which might reflect the more dynamic local economy in the former and more readily available land in the latter.

Insert Figure 2 here: Compositions of housing sources in selected regions, 2000

Housing price has become the most important factor in tenure choice, and the transition to homeownership is increasingly driven by market forces (supply-demand balance) instead of social needs. Figure 3 shows the homeownership rates in the capital cities of these provinces. The huge increase in homeownership compared to 2000 (Fig 2) has partly resulted from the sale of public housing to residents at discounted prices and partly arisen from the termination of large-scale work-unit housing supply. Cities in the east tended to have lower ownership rates because they had larger demand, less developable land and more restrictive housing purchase regulations. Such demand-supply imbalances had pushed housing price beyond many households' affordability limits.

Insert Figure 3 here: Homeownership rates in selected cities in 2012

**Distribution:** In the socialist system, the centralised control of public housing meant that a few powerful people could impact the distribution process (see Wang and Marie 1996). The commodification reforms in China have resulted in parallel commercial-social distribution systems similar to those in developed countries, except that its social housing, instead of being residual, shows signs of resurgence in recent years (Chen et al., 2014) Individual household is responsible for reporting their housing needs to local authorities. Qualified

households are then added to a ‘needs bank’, and a lottery draw selects who is offered what and where (Chen, Yang and Wang, 2014).

There is smaller regional variation in commercial housing distribution compared to social housing, as the distribution criteria for social housing could be tailored by the regional authorities. In Beijing, for example, qualified applicants for the Economic and Comfortable Housing (ECH) should have obtained local household status for at least three years and meet other criteria related to income, average living floor space and age. In Chongqing, local household status is not required. For Public Rental Housing (PRH), the regulatory loophole is even bigger, so local variations in criteria such as income, assets, living space per capita, and residence permit are significant (Chen, et al., 2014, p543). Therefore there are substantial differences in the distribution process across the major cities and regions of China.

#### 4.2 Social rights

**Subsidy:** The subsidisation of housing in China has been evolving, not disappearing, in the transition processes. Before reform, the Chinese governments and state-owned factories could cover the bulk of housing costs. In the 1990s, the governments offered housing vouchers to subsidise the purchase of public and commercial housing (Wang and Murie, 1996). Now housing subsidy is only available for social housing. Regional differences in the specific formats and degrees of subsidies, such as lower (even free) land costs and tax exemptions to developers and price/rent reductions to qualified household, are noticeable. For PRH, both Beijing and Shanghai offer tax exemptions to reduce construction costs. However, Beijing also tries to control land costs by charging the land usage fee annually instead of collecting it in one-go<sup>4</sup>. In Shanghai, no such subsidies are available (Department of Housing and Urban-Rural Development of Shanxi Province 2009).

**Regulation:** China shares with other Asian counties a strong interventionist tradition in housing development processes (Doling 1999). At the national level, China has ‘Medium-to-long Term Development Plans’, and the ‘Five-Year Plans’. The 12<sup>th</sup> Five-Year Plan has an explicit chapter (Chapter 35) on ‘Improving the Housing Standard’ (State Council 2011). State control of land and finance ensures the deliverability of these national regulations: for urban land, the monopolistic development right held by the state facilitates its macro-control on the housing market (Duncan 2007). Tightened land supply partially contributed to land speculation and hence housing price fluctuations (Feng et al, 2011). For finance, the four largest banks in China are all state-owned and supervised by the People’s Bank of China (PBoC) (Deng and Fei 2008). Therefore in understanding likely housing policy outcomes, it is not enough to just observe switches from state to market, but essential to know how states regulate, subsidise and tax to achieve housing and other ends.

Growing localism in China, understood broadly as deregulation and decentralisation, offers local governments increased autonomy in tailoring local regulations. Since interest rates and major tax rates are still decided by Beijing, land provision and planning becomes the most important tool that local governments use to manipulate the housing market. OECD (2015)’s Economic Survey of China revealed that land sales revenue, a buffer used by local government to shield fiscal risk from local debt, was over 30% of the total local revenue generated in 2013. Chongqing and Hubei in particular had the highest share of land revenue (figure 4). To raise land revenue, local governments could influence either the prices or the quantities. Generally speaking, inland regions mainly boost land revenues by increasing sales

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<sup>4</sup> In China, the maximal land usage period for residence housing is 70 years. Developers often need to buy out the land usage right in one go when bidding for it.

volumes while coastal regions are more likely to restrict sales and push up prices. Deng et al. (2015) found that in many large cities, land prices had risen much faster than the house price (table 1). But this difference was higher in first-tier cities, such as Beijing, Shanghai and Guangzhou.

Insert Figure 4 here: Revenue from land sales as percentage of sub-national fiscal revenue 2013

Insert Table 1 here: Land and house price growth rates in 12 major markets, 2004-2014

### 4.3 State-market-family relations

**Finance:** Both households and developers are increasingly seeking finance from the banks. On the demand side, Chen, Stephens and Man (2014, p12) pointed out that the outstanding balance of home mortgages increased by more than 250 times between 1997 and 2009. In 2010, mortgage loans accounted for around 80% of total household debt, reaching over six trillion RMB (Carbo-Valverde et al. 2013, p35-6). The subsidised Housing Provision Fund (HPF) is another financial source for urban employees. The saving-loan pool for HPF is formed by compulsory savings of employees as a proportion of their incomes (around 5%) and matched by employers (Yeung and Howes 2006). PBoC (2007) noted that the total HPF loan originations in 2006 reached 380 billion RMB, about one-fifth of commercial mortgage loan originations. Therefore despite the favourable interest rates of HPF loans, commercial mortgage loans are now the dominant source for China's urban dwellers. On the supply side, Chinese developers seemed to be able to source their own funds (about 70%). But adding indirect bank loans, they actually relied on the banking system for over 55% of their financial needs (higher than the international norm of 40%) (Baidu Library 2011). The strong State presence in China's financial system means that it can exert direct, significant influence over the behaviour of both households and developers (Li 2010; Zhang 2000). For example, in order to curtail soaring housing prices in 2010, the State Council (2010) set up an incremental loan-to-price ratio and mortgage interest rate based on the number and size of properties a household held. First-time-buyers had to put down at least 30% deposit if they purchased a flat over 90m<sup>2</sup>. For someone purchasing the second house, the down payment required rose to 50%, and the interest rate had to be at least 1.1 times of the base rate. On the supply side, the financial institutions in China face very strict regulations by the PBoC, which gives them limited room for product innovation (or speculation). Mortgage securitisation to individuals still does not exist in China, and REITs are embryonic. But their absence, to a great extent, sheltered China from the adverse effects of the GFC.

Financial support from family is significant in meeting the housing costs of younger adults. According to the Blue Book of Youth (Lian 2014), 24.3% of its survey respondents lived with their parents for free. For those who purchased homes, 49.2% obtained a bank mortgage through the support of their parents, while 26.1% had houses bought by their parents and gifted to them. Both the high household savings rates and the greater inter-generational assets transfer underpin a significantly different financing model of entering home ownership in China compared to many Western countries, such as in Western Europe and North America..

**Supply:** The nature of providers in the housing construction process has changed over time. State and collective-owned companies were the dominant housing constructors until the end of the 1990's. In the new century, domestic private companies have been taking the upper hand and squeezed out the traditional investment sources from Hong Kong, Macao and

Taiwan (figure 5). It is now a common practice for governments to out-source social housing construction to domestic private developers.

Insert Figure 5 here: Number of Real Estate Developers with different ownerships

**Demand:** Urban housing demand in China was historically masked by non-price allocations of public housing. State-owned factories, or ‘work-units’, usually functioned as the broker between the states and individual families. Their specific roles had been evolving, not necessarily reducing, over time (Wang and Murie 1996; Wu 1996). It was at the end of the 1990s that individuals became the major direct consumers of housing (National Bureau of Statistics, 1996). Disposable incomes, coupled with family support, determined effective housing demand. Households’ propensities to invest/speculate in housing assets also appear to grow significantly. The China Household Finance Survey (2014, p3) found that in 2011, 15.9% of urban households had more than one property mainly for investment purpose. By 2013, this figure had risen to 18.6%, and by March 2014, it had climbed to 21.0%. A consequence of this speculation is high vacancy rates. In 2013, 17.3 % of these secondary or third homes were left vacant throughout China. Figure 6 shows the regional differences in overall housing vacancy rates. The first-tier regions tended to have higher vacancy rates than inland regions, which might reflect the higher speculation composition there. The 2008 financial crisis nevertheless seemed have squeezed out some of these housing bubbles.

Insert Figure 6 here: Regional Housing Vacancy Rates between 2002 and 2009

Such speculative investment unavoidably pushed up overall housing prices, so low-to-middle income households were often left in difficulties meeting their real housing needs. In 2005, for example, the ratio of housing prices to urban households’ disposable income reached 16.4. After a series of market adjustment measures, the State managed to cool down the housing market, but this ratio remained high at 11.5 in 2012 (National Bureau of Statistics, 2014).

Regional variations in housing market outcomes (price burdens) are significant. Figure 7 compares the annual growth of house price and household incomes for major cities. In general, housing prices grew faster than incomes. First-tier cities, such as Beijing, Shanghai and Guangzhou, stood out as outliers with housing prices increased much faster than incomes; less-favoured cities, such as Taiyuan and Nanchang, faced smaller housing market pressures.

Insert Figure 7 here: House price appreciation and income growth comparison (35 major cities, 2006–10)

Different features of the market and non-market systems we outlined in section 2 could be observed at particular times and in particular regions of China, as such the ‘middle ground’ of housing system is temporally and spatially defined, which highlights the importance of a long term effort in recording and monitoring housing system changes. Furthermore, with the case

of China we demonstrated the limitations of the EA approach. First, the adoption of specific housing policies by the Chinese government in certain period was shaped to serve its overall economic and social development strategies, i.e., housing policy regimes are impacting and impacted by the ‘big outcomes’. Second, we demonstrated that a rising private homeownership does not always correspond to the withdrawal of the State – there were backwards-and-forwards efforts to maintain social wellbeing in China amidst the continuously rising homeownership rates. Therefore tenure based descriptions are too crude to be effective proxies to demonstrate how housing changes and welfare outcomes are evolving. Last, significant regional differences within China were noticeable in most of the housing indicators we discussed here. Our call to pay attention to the transition trajectories of local housing regimes is justified.

## **5. Conclusion**

This paper responds to Wang and Murie (2011)’s call for a rethink of the ‘middle ground’ in housing transitions by reflecting on the conventional Esping-Andersen approach. Firstly, we argued that the EA approach has been overwhelmingly devoted to changes in social-political structures rather than housing outcomes. Secondly, we advocated a de-emphasis on tenure change as guide to transition processes with a new emphasis on system functioning indicators and outcomes. Finally we argued that, in line with an evolutionary perspective and a growing prevalence of localism, it was critical to consider the growing diversities in policy regimes emerging within nations.

In this paper, we tried to take one step forward by linking the EA approach to Mayo’s work on housing indicators, and suggested some ‘ideal’, or prototype indexes that might be developed to describe system change between the polar cases of pure market and pure state regimes. These could usefully be refined to form the basis of future research on housing system management and evolution. The broad approach was illustrated by exploring the economic and social rationale underpinning China’s housing reform as well as its consequences. We noticed that more open, deregulated, local housing systems are more subject to non-local and global shocks (increasingly noticeable in China), which is suggestive of the need for a theoretical perspective that is not reductionist and nation-focused, but captures the interaction between different geographical scales and associated orders of government autonomy. Across regions and nations, the middle ground is sufficiently diverse, and the range and intensity of interventions in housing markets are so dissimilar that the simple labelling of change as ‘neo-liberal’ is reductionist and potentially misleading.

We highlighted the necessity for a new summative, spatially variable (although we didn’t have the space to deal with it in this paper), system of indicators in housing studies. We sketched the key features of the ‘ideal’ social and market systems. Correspondingly, changes in non-market and market systems are traceable via the proportions of finance sources, actors in housing provision, construction and distribution, level of market control, affordability and social housing commitment and coverage. Although further work is needed to conduct such comparisons, we have in this paper examined the housing system evolution of China beyond the single index of tenure. Based on a combination of different indexes such as housing provision, construction, distribution and ownership, we were able to delimit the hybrid and regionally varied formats of China’s journey across the ‘middle ground’ of housing policy regimes, and conclude that forcing China’s changes into any of the typical categories of regimes misses the complex, evolutionary processes involved.



Our conclusion is that the compound housing systems in China are not the prototype regimes discussed in the Western literature, nor are they unified with the East European models (Stephens 2010). China has its unique high growth rate and experimental transformation approach, which has seen the emergence of different hybrid regimes without, as yet, a singular standard welfare system. It might be a matter of time before such a standard regime emerges, but for now, we believe this is a substantive matter of differences that research needs to appreciate. The high growth speed and reform efforts in other BRICs, as detailed in Maclennan et al. (2014), raises similar questions for these countries. Follow-on work is needed to test this framework further.

Last, we believe that housing studies has to give more attention to the local dimensions in which housing systems operate. Housing systems are inherently spatial and they are also often multi-level in their governance arrangements. Accounts have to consider regional varieties in regimes and to recognise the approaches in which multi-order governance are reconciled, or left disconnected. Housing systems also unfold over time and we argue for a much closer account of the evolutionary properties of housing systems and the significance of path dependency. Moreover, along with the growing urbanisation rate (especially in developing countries) and the agglomeration of population in urban settlements, housing pressures are likely to be more severe in metropolitan areas compared with their rural hinterlands. Such agglomeration, coupled with the local embeddedness of the housing system, its inherited slowly evolving processes, and its growing demands on household incomes call for a central consideration of housing within the understandings of both urban change and strategic urban management. Confined by space, we had to leave behind this discussion, but believe that future work on housing system transformations has to build on from its welfare policy roots and be set within conceptual, empirical and policy frameworks that operate at local-metropolitan rather than national scales.

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