

Discussion of

“Housing Privatization as Intergenerational Redistribution”

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ABFER Annual Conference 2026, Singapore

May 2026

What Does This Paper Do?

China's 1994 Housing Reform

- Pre-1994: state-owned housing
- 1994: SOE employees purchased housing at discount
- Commercial market opened
- Buyers realized capital gains

Research Question

- How did the reform affect welfare across generations relative to pension reform?

Quantitative OLG Model

- 14 generations (ages 21–90)
- $u(c, \text{housing}, \text{bequest})$
- Two sectors: goods and housing
- Gov: taxes, subsidy, pension
- Pre-1994 → BGP → 2045
- Exogenous: population \downarrow , TFP \downarrow , age profiles

Welfare analysis

- pension reform
- unexpected slowdown

Mechanism

- Privatization \approx “IPO” at a discount price
- Home prices appreciated faster than wages
- Capital gains \Rightarrow **Transfer from young to old**

“Automatic Adjustment”

- Fast growth \Rightarrow large transfer
- No additional public financing needed \Rightarrow **fiscally robust**

Findings vs. Pension Reform

1. Homeownership \uparrow for all groups
2. House prices \uparrow
3. Welfare \uparrow for future generations
4. Smaller government deficit

Bottom Line

Housing privatization functions as de facto social insurance with automatic adjustments.

Generalizability

- Housing reform is unique to China's "socialist market economy"
- Other emerging markets already have private housing markets

Ex Post Success

- China's economy grew ex post
- Policymakers do not know future growth; output variations may be far larger than the slowdown scenario in Fig.15

Regional Development Phases and Heterogeneity

- Development trajectories vary by region's industrial structure
- Success depends on location and timing (too early for a region but too late for another)

Suggestion: Discuss challenges in future applications

Comment 2: Housing vs. Perfectly Adjusted Pension

Automatic Adjustment if house prices reflect income expectations

Basis Risk: Housing Prices \neq Wages

- Wages \neq rents; and rents \neq house prices: $P^h = \frac{\text{rents}}{r + \text{risk premium} - g}$
- P^h moves *even when wages are unchanged*
- China post-2015: house prices deviated from wage

An Alternative: Wage-Indexed Pension

- Paper's pension (eq. 6): $b_{t,j}^i = \theta [(1 - \nu) y_{t-j+J_w, J_w}^i + \nu \bar{y}_{t-1}]$
- Alternative: $b_{t,j}^i = \theta^j \bar{y}_{t-1}$ scales directly with wage growth (no basis risk)

Suggestion: Examine if housing reform dominate this alternative pension.

Comment 3: Housing vs. Financial Assets

Financial Assets

Invested capital is channeled to

- Production factors
- Technology

Capital markets achieve **efficient allocation**.

Owner-Occupied Housing

Invested capital is locked into one illiquid asset used only for own consumption and single-asset investment.

Over-weighting in owner-occupied housing is **inefficient**.

Alternative policy instruments with automatic adjustment:

- Distribute **financial assets** instead (stocks, ETFs, REITs, RE funds)
- Construct a **wage-mimicking portfolio**: transfers scale with income growth, without housing distortions

Suggestion: Benchmark against these alternative asset distributions.

Comment 4: Distortion in Housing Consumption

Housing serves three roles:

1. **Shelter** (consumption) — primary role
2. **Store of value** (investment)
3. **Intergenerational transfer** — new role added by this paper

Aiming for role 3 would distort roles 1 and 2:

- *Lock-in*: households delay relocation to optimize sale timing
⇒ suboptimal residential decisions
- *Over-concentration*: household wealth concentrated in housing
⇒ suboptimal portfolio choice
- Over-exposure to housing risk creates economic vulnerability

The current model is calibrated to home ownership **given housing reform**

Suggestion: Benchmark against optimal LC consumption and portfolio.

Comment 5: Opportunity Cost for the Government

The welfare comparison of housing reform vs. pension reform omits the **value of public real estate**.

- Had the government *not* privatized housing, it would have captured capital gains from public real estate appreciation
- The current analysis misses this **foregone government asset**

A fair comparison requires:

- *Housing reform*: capital gains captured directly by initial households (current paper)
- *Pension reform benchmark*: capital gains captured by the government and **redistributed via pension**

Suggestion: Accounting for this opportunity cost when evaluating the fiscal advantage of housing reform.

Very interesting and important insight:

- Housing privatization can serve as a “growth-tracking pension”

Suggestions:

1. Discuss generalizability
2. Consider wage-indexed pension
3. Consider financial asset distributions
4. Quantify distortions in consumption and portfolio
5. Incorporate the opportunity cost for the government

Thank You

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ABFER 2026, Singapore