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Institutions for housing subsidisation: the case of low-income housing in China

Institutions for housing subsidisation are an important type of institution for redistribution. They are dominated by public housing and social housing, which are characterised by (1) public ownership or social ownership, (2) a management board not held accountable to the recipients and (3) low-powered incentives. I argue that they are institutional arrangements to resolve the over-subsidisation problem, in which welfare recipients try to be over-subsidised in various ways. This problem is especially acute with housing, for which the measurement cost is high. The down side of public housing and social housing is internal management cost and possible mistakes in resource allocation. Case studies of two public-housing communities in Chongqing, China, are presented for empirical support of my theoretical arguments. It is also found that market institutions such as property management companies can help to enhance efficiency.

Keywords: housing subsidisation, over-subsidisation problem, public housing, social housing, low-income housing

Introduction

Housing subsidisation is an important part of the welfare system in every country.¹ This is especially so in transitional economies where the whole housing system is being rebuilt. For example, China's urban housing reform started with privatisation of the welfare housing stock and has now shifted towards public rental housing (Huang, 2012). It is extremely important in the reform process to have some basic understanding of housing institutions in a market economy. On the other hand, there have been limited institutional analyses of this topic despite many studies that focus on particular institutions in a particular country. Although people often argue that public institutions provide public goods, few analyse what special traits those public goods have and what their relationships with the governance structures of public institutions are (Williamson, 1999). Institutions for income redistribution are one important type of public institution, of which institutions for housing subsidisation are an important part (Nourse, 1966). We here focus on the public institutions for which housing subsidisation or redistribution is the most important objective.

¹ In a study of social housing in seven Western European countries, 'over 50 per cent of the operating costs are still being subsidized by the government' (Boelhouwer, 1999, 238).

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I address two research questions in this paper. First, how can we analyse institutions for housing subsidisation? What is the key factor – or, in the jargon of New Institutional Economics, key hazard – in this type of public institution? Basically, I want to explore a general institutional analysis of institutions for housing subsidisation. Second, can we apply the above theory to low-income housing in urban China? Put another way, can we find some empirical evidence in China?

Housing subsidisation is often studied in the context of housing policy. It can be in the form of demand-side subsidy, such as housing allowance, or supply-side subsidy, such as public housing. Since demand-side subsidy only involves transfer payment to low-income households to compensate for rent, it usually does not require building up special institutions. It is more or less the same as income redistribution in cash. Supply-side subsidy, such as public housing, social housing and many other types of low-income housing, often needs to establish special institutions to deliver housing to the poor and, more importantly, govern those housing complexes. Given the purpose of this paper, my focus is naturally tilted towards supply-side subsidies. However, it is necessary to acknowledge that housing policy per se (such as the debate between supply-side subsidy and demand-side subsidy) is not of interest to me.

There are at least three analytical angles with regard to housing subsidisation. The first angle is about the relationship between the poor and their representatives (or policy makers) in the legislature (or government at large). This angle is absolutely crucial to public policies regarding housing subsidisation. The second angle focuses on the relationship between the legislature or the government and the provider of low-income housing. This relationship might be in the form of ‘contracting out’, which is the central issue in many traditional studies (e.g. Hart et al., 1997) on the scope of government. The third angle looks at the relationship between the housing provider and the poor (or welfare recipients). This is where special institutions are often needed. It is through this third angle that institutions for housing subsidisation are analysed in this paper.

As a special type of institution for redistribution, institutions for housing subsidisation are dominated by public housing and social housing. They have three important features: (1) public ownership or social ownership, (2) a management board not held accountable to the recipients and (3) a non-profit organisation enjoying a special status. I argue that recipients of housing subsidies have the incentive to be over-subsidised in a way that is similar to the tragedy of the commons. Once the legislature or the government decides on the overall size of the subsidy, every party involved, including the welfare recipients, has the incentive to privatise part of the subsidy as much as possible. Institutions with the above-mentioned three features are better at preventing or mitigating the recipients’ opportunistic behaviour. The trade-off is that public housing and social housing, when compared to market institutions, involve higher management cost and more possible mistakes in resource allocation.

My study of two cheap rental housing (CRH) communities in Chongqing, China, provides empirical support for the above theories. It is found that the over-subsidisation problem does exist and public housing can mitigate the problem. However, public housing has high management cost and low efficiency. Market institutions such as property management companies (PMCs) help to enhance efficiency in housing management, but their strong motivation for profit is also a source of problems. Besides, PMCs are not good at dealing with residents' antisocial behaviour, while public institutions can play an important role in that matter.

The remainder of the paper is organised as follows. The next section is a literature review, followed by a description of the characteristics of institutions for housing subsidisation. The fourth section includes an institutional and theoretical analysis of that type of institution. A brief introduction to low-income housing in urban China is provided in the fifth section. Two case studies are presented in the sixth section. The last section is a conclusion.

Literature review

The majority of institutions for housing subsidisation in the world are public institutions. First of all, there are many different types of public institution. Williamson (1999) deplored that few people analyse the relationship between the special traits of particular public goods and corresponding governance structures of public institutions. In other words, a general study of public institutions is not very meaningful, if not impossible, unless we distinguish the types of public good provided by those institutions.

The first vein of literature on public institutions focuses on the scope of government or the relationship between the government and the provider of a particular public good. For example, by developing an incomplete contract model of prison privatisation, Hart et al. (1997) provided an analysis of the scope of government that focuses on the comparison between in-house provision and contracted-out provision. Another vein of literature employs institutional analysis to examine different types of public institution. An important study of political institutions is Weingast and Marshall's (1988) paper on the US Congress. They focused on the legislative committee system that helps to prevent *ex post* opportunistic behaviour and enforce bargains among legislators. Williamson (1999) turned to the US State Department and addressed the question why public bureaucracy is widely used while at the same time it is believed to be inefficient. He argued that probity is an important hazard for 'sovereign transactions' or foreign affairs, and hence the State Department cannot be fully replicated by private bureaucracy. A broader scope of study is provided in Barzel (2002), who analysed the state as the third-party enforcer of voluntary agreements among people as well as a collective-action mechanism to prevent the enforcer

from becoming a dictator. As far as I can find in the literature, there are few studies of public institutions for income redistribution. Even Barzel stopped at a model of the state that 'does not supply social services' (Barzel, 2002, 4).

The literature in the school of public choice offers important insights into government failure and the behavior of public institutions. Prominent scholars in this school include Buchanan and Tullock (1962) and Buchanan et al. (1980). Unfortunately, their focus is often placed on the first and second angles rather than the third angle, let alone special institutions in housing.

General studies of political institutions or public institutions are abundant, including those from a transaction-cost perspective (e.g. Moe, 1994). However, as Williamson (1999) pointed out, public institutions have many different types and each type may correspond to different public goods with different traits. Moe's (2005) later critique also suggests that we need to look more broadly for factors that determine public institutions.

There are a large number of studies of redistribution, especially income redistribution, but studies employing institutional analysis are very limited. An interesting study by Acemoglu and Robinson (2001) showed that inefficient redistribution may result from the special interest group's desire to maintain its size in the future so that their interests can be protected when democracy cannot make credible commitments. Although they are very different in methodology and conclusion, Acemoglu and Robinson (2001) and Moe (2005) share the same analytical angle, i.e. how power relationships shape political structure.

There have been few studies of institutions for housing subsidisation. An important feature of low-income housing policy is that government often provides in-kind housing assistance rather than simply cash transfers. Several reasons are given in Collinson et al. (2015) and Mills and Hamilton (1994). In general, many rationales for in-kind housing assistance rest on the assumption that such housing programmes can lead to greater consumption of housing than would a simple cash transfer of equal cost to the government. But this need not be the case (Collinson et al., 2015). Deng (2018) mentioned the over-subsidisation problem in low-income housing, but did not elaborate on its economic rationale and institutional implications, let alone empirical evidence.

There are many studies on public housing and social housing, two important types of low-income housing, from various perspectives. Those that more or less focused on redistribution include Nourse (1966), Marcuse (1995), Vale and Freemark (2012) and Eerola and Saarimaa (2015) on Finland. With regard to social-housing governance, Czischke et al. (2012) reviewed the literature on social enterprise, a core organisational form in social housing, in Europe and the USA and developed a classification system for the social housing association sector. Boelhouwer et al. (1997) and Boelhouwer (1999) compared housing management practices in seven Western European countries

and, in particular, pointed out that the better-off households usually do not leave the social sector in those countries. Gibb and Maclennan (2006) raised some issues about social housing in UK from the efficiency and organisational perspective, but they are too much embroiled in policy details.

An important study on social housing that is closely related to this paper is Maclennan and More (1997). They listed several possible reasons for social housing as observed in Europe: (1) the state may be better at providing rapid, large-scale housing supply in times of excess demand for housing; (2) not-for-profit owners may choose not to extract 'scarcity rents' from tenants also in times of excess demand; (3) it may be advantageous to have owners, managers and customers who have a 'convergent' goal set; (4) it may be cheaper for the state to monitor the performance of organisations rather than every single social tenancy. The first reason is contradicted by American experience and cannot explain the persistence of social housing. The second reason is also applicable to the case of a management board that consists entirely or mostly of tenants, which is rare in practice. Put another way, that reason cannot explain why the management board of social housing is usually not held accountable to the tenants. As to the third reason, it is difficult to say that the goals of owners, managers and customers are the same in the case of social housing, as evidenced by the changes of social housing in recent decades. The fourth reason can be applied to any organisation, be it government agency, non-profit organisation or firm. In a word, Maclennan and More (1997) is very helpful for understanding social housing especially from a historical perspective, but it cannot explain the institutional form of social housing.

Institutional features

Housing subsidisation is a big issue in housing policy and there is much debate on supply-side subsidy versus demand-side subsidy (Apgar Jr. 1990; Barton 1996; Galster 1997). Most supply-side subsidies, especially public housing and social housing, require special institutions. Given my purpose in this paper, I will focus on supply-side subsidies, especially in the context of the USA, Western Europe and China.

As Collinson et al. (2015) noted in their review of low-income housing policy in the USA, the US federal government did not get involved with low-income housing in earnest until the passage of the Housing Act of 1937. For the first several decades, the government directly subsidised local public-housing authorities for the construction of public housing, which is also managed by them. Beginning in the 1960s and 1970s, the government (HUD) shifted to relying more on subsidies both to private developers to build and operate low-income housing and to low-income households (as housing-choice vouchers). There are now three main types of federal low-income housing programmes in the USA: (1) public housing, (2) privately owned subsidised housing and (3) tenant-based vouchers. Today privately owned and operated properties house

nearly three-quarters of assisted households (Collinson, 2015). That is why Vale and Freemark (2012) changed the name of public housing to public-private housing, or 'social housing, American-style'.

The largest type of subsidised housing in some European countries is social housing. Its housing stock is owned by local municipalities, churches or non-profit organisations such as housing associations. When it is owned by a local municipality, it is essentially public housing, 'European-style'. In some countries (e.g. the UK) social housing also experienced a shift from the public to the voluntary sector (McKee, 2008; Victory and Malpass, 2011). Despite the multiplicity of social landlords in recent years, a common feature is that they can be classified under the heading of 'social enterprise', which encompasses non-profit and even limited-profit organisations (Czischke et al., 2012). Their governance structure mostly coincides with the legal structure, therefore most of their management boards are not held accountable to the tenants. There are, of course, exceptions. An example is that housing management within Danish housing associations is largely controlled by tenants, but Czischke et al. (2012) noted that it is subject to detailed government regulation.² MacLennan and More (1997) observed that in France the 'professionals' dominate the boards and in the Netherlands there is a reduction in tenant membership of boards. Although the management of social housing is changing over time (Boelhouwer et al., 1997; Boelhouwer, 1999), tenant participation is often limited to a small sphere of housing management.

What are the common characteristics of the institutions for housing subsidisation? The following is a list of characteristics that are shared by public housing and social housing in most countries. (1) Public ownership or social ownership: public housing is often regarded as a subcategory of social housing. (2) The management board is not held accountable to the welfare recipients: in the rare case of tenants controlling housing management, detailed government regulation is usually imposed. (3) Low-powered incentives are involved in delivering housing to the poor: a non-profit organisation is usually required in the case of social housing; public housing is managed by public bureaucracy that is obviously characterised by low-powered incentives. (4) Leasehold rather than ownership is often dominant in public housing or social housing.

The over-subsidisation problem

Since housing subsidisation is a type of income redistribution, I start with some general analysis of income-redistribution institutions. Most studies of market institutions focus on contract, which is a tool for initiating and implementing a two-party voluntary transaction. This even applies to political markets (Weingast and Marshall, 1988). However, for income-redistribution institutions in general, the two-party

² Boelhouwer (1999) even quoted 'tenants' democracy' when referring to Denmark and Sweden.

relationship is no longer about mutual benefits from trade or cooperation for a collective good. It is rather a one-way relationship, at the receiving end of which the poor stand even though they might be able to influence government policy. In a sense, it reflects a power relationship in society. This is very different from the traditional perspective on contract (see, for example, Williamson, 1985; Hart, 1995), which is characterised by bargaining and negotiation among the parties on an equal footing. In most cases, income-redistribution institutions cannot facilitate bargaining on behalf of the recipients against particular policies that are already passed by the legislature or the government (in the case of non-democratic countries). Any bargaining on behalf of the poor has to be performed by their representatives in the legislature. Little bargaining seems to be allowed between subsidy provider and recipient. But is this applicable to all types of income redistribution?

Traditional institutional theories often skip over service provision as a trivial matter for public institutions. For example, in their studies on prison, Hart et al. (1997) didn't pay much attention to the prisoners, or, more accurately, to the relationship between prisoners and prison provider/manager. This might make sense in the case of a prison, which operates by force, and it also fits into their research setting. But the recipients cannot be ignored in studies on public institutions for income redistribution, especially those for housing redistribution. I will present evidence that housing recipients do respond on behalf of their own interests, although their response might not be in the form of bargaining and negotiation.

One such response is that poor people (or the recipients of housing subsidisation) have the incentive to be over-subsidised. They will try to obtain in various ways more subsidies than stipulated in the housing policy. For example, as Maclennan and More (1997, 543) observed, 'they may ... seek lower rents, exclude minorities and have no financial competence'. This over-subsidisation problem can also be regarded as a kind of opportunistic behavior that has profound implications in transaction costs and institutions. In some sense, it is similar to the tragedy of the commons. The government or the legislature has made some housing policy that allocates a certain amount of money to be distributed to the poor in the form of a housing subsidy. As long as it could be seen as something similar to the commons, then every party who is involved in this redistribution process, including welfare recipients, housing provider and so on, might be motivated to dig out as big a share of that money as possible. In other words, every welfare recipient has the incentive to privatise any 'public good' that is in the commons. Then a question naturally arises: why is housing subsidy regarded by some people as something in the commons? Why not cash in general income redistribution?

The answer lies in measurement cost, which is very low for cash. It is for this reason that over-subsidisation in housing is less visible than that in cash. There are many aspects of housing service provision, including both quantity and quality issues. For example, low-income housing provides not only a certain amount of housing area

in square metres but also other housing attributes such as design, interior decoration, water, power and so on. Neighbourhood amenities, infrastructure and even location can also be regarded as what housing provides. All these housing attributes are very difficult to measure or quantify. Compared to cash, housing involves much higher measurement costs in the sense of Barzel (1982). Therefore the poor can demand many aspects of housing that are very difficult to specify *ex ante* by government policies. In other words, the over-subsidisation problem cannot be solved *ex ante* by policy makers or government agencies. The housing provider has to deal with this problem *ex post*. Eerola and Saarimaa (2015) found in Helsinki that housing allowance is much more concentrated to low-income households than public housing subsidy. In their sample, the households in the lowest two income deciles receive 66 per cent of the total amount of housing allowance, but only 34 per cent of the total rent savings created by public housing. Twenty-two per cent of the public housing subsidy even goes to the top half of the income distribution. This is clear evidence for the over-subsidisation problem and its relationship with measurement cost.

The over-subsidisation problem has at least two aspects. One aspect is that the recipient may demand more subsidies in various ways. Another aspect is that the recipient doesn't want to discontinue the subsidies or return the subsidies once he/she becomes ineligible for the subsidy. The second aspect is most obvious in the case of ownership-based public housing, i.e. housing that is built by the government and sold at a subsidised price. It is essentially a one-time transfer of wealth. This is fine as long as the recipient remains poor. However, if the recipient's condition later improves and he/she no longer qualifies for the subsidy, he/she obviously will not automatically return the housing unit to the government even though he/she may move to other places. The ideal result that he/she sells the housing unit back to the government seldom happens.³ Apparently this does not meet the equity objective of low-income housing and also increases the financial burden of the housing provider. That is one reason why low-income housing is often leasehold rather than freehold.⁴

In order to mitigate the hazard of over-subsidisation, institutions for housing subsidisation often need to be above the level of the recipients in the sense that they are not formed by the recipients themselves. Rather, they are set up by the government or non-profit organisation and the housing units are often owned by the public or by non-profit organisations. Another feature of public housing and social housing is also designed to ward off the over-subsidisation problem: its management board is usually

3 This 'lock-in' problem also happens to social rental housing in many countries (Boelhouwer, 1999; Eerola and Saarimaa, 2015). Although I emphasise the reasons from the tenant's perspective, Boelhouwer (1999) pointed out that it might also be desirable from the management's perspective. So a divergence apparently exists between the public interest and the management's interest.

4 Another reason is the affordability of the poor. Homeownership obviously requires higher income and wealth than leasehold.

not held accountable to the tenants or the recipients of housing subsidies. Instead, they are appointed by the government or by non-profit organisations. This is in stark contrast to private residential communities, where the board of the homeowners' association (HOA) is directly elected by the homeowners and held accountable to them. It is not difficult to imagine what would happen if the management board of public housing or social housing were held accountable to the tenants. They would demand more subsidies! Even if the demand were not in the form of cash, it could be made in many different aspects of housing. It then makes sense for the institutions to be above the level of the poor.

The same rationale applies to other parties involved in subsidised housing. Measurement cost could also enable housing providers to be incentivised to privatise part of the commons of housing subsidy. If the objective of the housing provider is profit, it would be easy for them to make money from subsidised housing. This kind of high-powered incentive for profit may undermine the overarching objective of income redistribution. In this sense, probity, as argued by Williamson (1999), also plays a role here. Hence social housing, let alone public housing, is often built and managed by non-profit organisations. Of course, it is a matter of degrees. As will be discussed below, there are many trade-offs involved in the institutional choice of housing subsidisation and, hence, more and more for-profit organisations are now part of the institutions for housing subsidisation. Nevertheless, it is fair to say that non-profit organisations play a special and important role in housing subsidisation.

Institutional choice always involves many trade-offs. What are the trade-offs for the institutional arrangements that are designed to ward off the over-subsidisation problem? In the case of public housing and social housing, the trade-off is internal management cost and possible mistakes in resource allocation.⁵ The more distant the low-income housing institutions are from the poor, the larger the scale of those institutions and, hence, the higher the internal management cost, and the higher the possibility of making mistakes in resource allocation, but the lower the over-subsidisation hazard. These costs can sometimes be huge in magnitude or significance. For example, many public-housing projects in the USA in last century were poorly designed and located in the wrong places. Many have effectively become slums, where crime rates and poverty rates are high and concentrated (Carter et al., 1998). Some were even abandoned soon after they were built. Some critics (Husock, 2003) called for a complete exit from public housing. This story suggests that the costs of public housing or social housing could be so high that the balance may sometimes be tilted towards private market institutions. It is, then, not surprising that a significant portion of subsidised housing in the USA is privately owned and operated. Nevertheless, as

5 It is possible in theory to introduce some degree of competition into social housing or even public housing. However, it is doubtful that there can be meaningful competition among social-housing providers (Oxley et al., 2008).

Van Weesep and Priemus (1999, 11) suggested, ‘the privatization of housing cannot solve all the problems of the poor’. There always appears to be a role for public housing or social housing.

Housing subsidisation in urban China

Two processes have been shaping low-income housing policy in urban China. One is the polarisation process that comes with the economic reform and widens the income gap between the rich and the poor in the Chinese city. Wang (2000) identified two types of urban poor in Chinese cities. One is the official urban poor and the other is rural-to-urban migrants. The second process is housing reform. Huang (2012) and Deng et al. (2011) provided good reviews of the evolution of low-income housing policies in China, which is an important part of the housing reform. The fusion of these two processes generates what we observe in the evolution of the institutions for housing subsidisation.

In the beginning of the housing reform the focus of the policymakers was placed on privatisation and developing a housing market, more or less ignoring the housing needs of the poor (Wang and Murie, 1999). With the widening income gap that comes with economic growth, housing subsidisation for the poor gradually attracted the attention of policy makers. The first low-income housing programme was Economic and Comfortable Housing (ECH, *Jing Ji Shi Yong Fang*), of which the target also includes the middle class. It built housing units for sale at subsidised prices. Its ambitious initial target was to satisfy the housing needs of about 70 per cent of urban residents, but it accounted for at most 10 per cent of housing supply, and about 70 per cent of ECH was built by work units for their employees (Lin and Gao, 2007). Corruption also plagues the programme. Many owners lease the ECH units to other people, indicating that they are not poor and do not really need the units for living.

The housing programme that targets the lowest-income class is Cheap Rental Housing (CRH, *Lian Zu Fang*). It was built by local government and managed by a housing bureau. The rent is very low compared to market rent. Its target is the lowest-income class. Despite the fact that it meets the housing needs of the poorest, its scale is very limited, probably due to the financial constraints of local governments and their lack of enthusiasm.

Facing criticism over its housing policy, the Chinese government gradually recognised the housing needs of the poor and the importance of leasehold. Since 2010, Public Rental Housing (PRH, *Gong Zu Fang*) has been built on a large scale in many Chinese cities (Zhou and Ronald, 2017). PRH is usually large housing complexes that are built by local governments, and a special government agency under the housing bureau is set up to administer PRH. Its units are leased at subsidised rent to low-income people who qualify through some financial criteria. In recent years, CRH and PRH programmes have been combined into a single PRH programme in some cities, and

consequently PRH has become the main low-income housing programme in urban China. What distinguishes PRH from pre-reform (public) welfare housing is that it is no longer related to the work unit. It 'should not be seen as a step backward or the restoration of the pre-reform welfare housing system' (Chen et al., 2014, 547).

One important problem with PRH is fraud. Zeng et al. (2017) found in a survey that only 58.3 per cent of PRH residents chose no fraud and 10.9 per cent chose fraud, much higher than 7 per cent, a figure released by the National Audit Office. Some researchers (e.g. Li et al., 2019) also found that many residents don't exit PRH after they no longer qualify for the programme.

Housing subsidisation inevitably has to deal with neighbourhood governance in low-income communities. At least, rent collection is an important aspect of neighbourhood governance. In an ordinary commodity housing MD (micro-district, or *xiaoqu* in Chinese), neighbourhood governance relies on a property management company (PMC) and homeowners' association.⁶ The PMC is usually hired by the developer and the HOA can be formed later by the homeowners. In practice, most MDs have not yet established an HOA, probably due to the efficiency of PMCs (Deng, 2012). Thus it is very common for an MD to be governed by a PMC only, which provides security, street cleaning, landscaping, facility maintenance and so on. The neighbourhood committee is basically the lowest level of local government and provides some public goods such as social welfare.⁷ It also sometimes provides subsidies and support to some low-income communities.

The governance of PRH (including CRH) is often the responsibility of the local housing bureau. Although it may set up a governing board that includes tenant representatives, the actual governing authority in practice is the housing bureau. In some cases a PMC may be hired, which then becomes a major player in neighbourhood governance.

The over-subsidisation problem in PRH or CRH may manifest in the following ways. (1) Tenants refuse to pay rent or fees despite the fact that they are already subsidised. This shows that the over-subsidisation hazard persists although PRH is relatively better at mitigating it. (2) Tenants refuse to exit PRH after their economic conditions improve and they no longer qualify for it. Many researches (e.g. Li et al., 2019) have shown that this is a serious problem for PRH. (3) Many problems associated with neighbourhood governance may be the result of the over-subsidisation hazard when compared with other housing types. Examples include antisocial behaviour and encroachment onto public interests, which may be more severe in PRH.

6 The MD is a planning concept that Chinese planners borrowed from the former Soviet Union. It refers to the integrated design and construction of a residential development. Nowadays it is mostly in the form of gated communities.

7 The political or administrative system in urban China usually consists of the following four levels: city, district, street office, neighbourhood committee (or community, as it is called in recent years).

Two cases of low-income housing

For the case studies, I selected two low-income housing communities, named Y and C, in Chongqing, China. Chongqing is a municipal city in China, under the direct administration of the central government. Thanks to the effort of local officials, it has the largest amount of PRH (including CRH) among Chinese cities (Zhou and Ronald, 2017). In this sense, its construction and management of public housing are representative of the whole country. The two selected communities are located within the same street office (town) in Nan'an District, Chongqing, thus minimising the impact from different public policies that are executed in different street offices. They are also close to each other, minimising variation from different locations. Before I selected the two MDs, I consulted the mayor of the town as well as the directors and Party secretaries of local neighbourhood committees. They all regarded these two MDs as typical CRH communities in Chongqing. MD Y is CRH, managed by a property management office from the Housing Bureau. MD C is a mixture of CRH and resettlement housing, managed by a property management company (PMC). It is accurate to say that MD Y represents typical CRH in China and MD C represents a market-oriented management model of low-income housing.

My research into these two housing communities mainly consists of semi-structured interviews that were conducted in April 2015. We interviewed residents and PMC managers as well as directors or Party secretaries of the neighbourhood committees within which the two MDs are located.

MD Y

MD Y is a CRH community that was built in 2007. It has 246 units with a total population of about 800. It consists of three multistorey buildings that together encircle a closed space. It is gated, but there is no private guard or entry-check system. Few public facilities stand inside the complex except a few items of exercise equipment donated by the Bureau for Sports.

The properties in MD Y are owned and managed by the Housing Bureau. A property management office is appointed by the nearby Housing Station, which is a subsidiary of the Housing Bureau. The office is staffed with seven people: two sanitation workers, a worker for garbage collection, three office workers and a manager. Its responsibility includes some simple tasks of property management, such as cleaning, garbage collection, water and power maintenance. As for problems that need more complex work, they have to be reported to the Housing Station, which will then send skilled workers to the community to fix them.

An important task for the property management office is to collect the rent and the garbage processing fee. The garbage processing fee, which is three yuan per month per household, is very low compared to the property management fee that is usually



Figure 1 MD Y

Source: Photo taken by the author

charged in ordinary commodity housing. The latter is often more than one yuan per square metre, which is equivalent to more than one hundred yuan per household per month. Rent in MD Y is very low, only about one to 3.3 yuan per square metre per month, with most tenants paying one yuan per square metre. For a housing unit of 40 square metres the rent is less than 50 yuan per month, while the rent for a comparable commodity housing unit is more than 500 yuan per month: ten times higher than the rent in CRH.

Even for such low rent, some tenants still delay or refuse to pay rent. The most commonly claimed reason is that they had paid more than other people in the same building and it would not be fair for them to pay rent. That is apparently an excuse. It appears that once one person refuses to pay rent for whatever reason, many others follow suit. Their motivation is to pursue more subsidisation. This has become an important problem to the Housing Station. Of course, some residents pay rent, but their percentage is comparatively low. For instance, this problem is not so severe in ordinary commodity housing MDs, where residents need to pay a property management

fee. In a survey in two commodity housing communities that was conducted by the author in 2012, 99.13 per cent of respondents paid their property management fees on time.⁸ The comparison between CRH and commodity housing suggests that housing subsidisation in the form of rent does not necessarily stop people's desire for more subsidisation in whatever form.

Many people refused to exit CRH after their economic conditions improved and they were no longer eligible for CRH. For example, some people even faked divorce so that they would still qualify for CRH. In 2013 the Housing Bureau authorised a large-scale rent increase for most tenants. Many tenants blamed the manager for betraying them. Although this was not true, according to the manager, they still vented their anger at her in various ways. Two years later she was still very agitated when talking about this.

I also even want to complain to the higher authorities since they did these kinds of things [cheating]! Report them to the government! I am very angry! More or less, they are all doing this kind of [cheating] thing ... [I told them] the property management fee I pay at home is much higher than the rent you pay here. I also have to pay my share of the costs of lights, water and power, but you don't need to pay a penny for those. Moreover, you are served by the staff in this office. We had better switch our places.

Another big headache for the property manager is disputes among neighbours or even among family members. This is the one thing that she thinks should not be their responsibility but frequently falls on their shoulders. They have to do their best to mediate in those disputes. There are also some problematic people in the community, such as alcoholics and drug addicts. In the event of mishaps, the property management office can only report to the police. They also sometimes try to resolve the problems by helping those people to obtain some available financial aid. In a word, these things are a big headache for the property management office; they often have to rely on the police and the neighbourhood committee.

MD C

MD C was built in 2009. It is a large-scale low-income housing complex including both CRH and resettlement housing. Resettlement housing is built for peasants who have lost their homes and farmland in the process of urban development. It is usually of lower quality and is also sold at a subsidised price. Some housing units in MD C are owned by the government and leased as CRH to poor people at a subsidised rent. Some units were sold to resettled peasants at subsidised prices. So MD C is not only

⁸ That survey was taken for another project. The two commodity housing communities were selected after consulting local officials, who confirmed that they are typical MDs in Chongqing.



Figure 2 MD C

Source: Photo taken by the author

a mixture of CRH and resettlement housing but also a mixture of leasehold and freehold housing.

The number of housing units in MD C is 1,083, with a total population of about 3,000 people. The MD consists of several multistorey buildings and there are many shops on the ground floor along the street. It is gated, but there is no private guard or entry-check system. There is a badminton court inside the complex as well as some outdoor exercise equipment.

There is no homeowners' association in MD C and a property management company is the only governing institution. It has been in charge of property management since 2009, when MD C was built. Its staff has eighteen people. The PMC has second-grade credentials and was once even awarded 'Excellent PMC' in Nan'an District, Chongqing. Its ordinary work includes security, fire control, cleaning, landscaping and facility maintenance. The property management fee is charged at two rates, 0.5 yuan and 0.8 yuan (per square metre). As a matter of fact, these rates are very low in Chongqing. However, some residents still delay or even refuse to pay the

property management fee with all kinds of excuses. Again, this problem is more severe than in ordinary commodity housing MDs, where most residents pay the fee on time.

The parking lot inside MD C is said to be owned by the developer, and therefore the PMC collects parking fees on his behalf. The total amount of the property management fee is about 40,000 yuan per month, while the salary of the staff is about 30,000 yuan per month. Given the financial conditions, the income from parking fees is mostly allocated to subsidise the PMC for the cost of its property management. This fact, as we were told by the PMC manager, is somehow contradictory of the account that the parking lot is owned by the developer, raising some doubt about the PMC's intention. The biggest controversy in MD C is that the developer promised to build a sightseeing elevator before the project was finished, but did not keep his promise. Many residents are not satisfied, but the PMC can't do much about it. That controversy shows that the developer has the incentive to maximise profits even if he has to break his promises.

Any visitor to MD C can easily see that its cleaning, landscaping and facility maintenance are better than other CRH complexes in the area. Residents are generally satisfied with the PMC.

The biggest headache for the PMC is some residents' antisocial behaviour, due to their 'lack of education and low quality'. The problematic population is not small, including drug addicts and people with criminal records. As to their antisocial behaviour and even crimes, the PMC can do little except report to the police. Some residents don't care much about the public interest and often scatter trash about or let their pets urinate everywhere. They don't pay attention to advice or warnings from the PMC staff members; some even threaten the PMC staff. The PMC manager complained as follows:

Some residents have multiple pets that pee everywhere ... Our staff have tried to persuade him from doing that, but he even threatened to beat us. There is also someone throwing things down from high-rise buildings. We reported it to the police ... Someone dumped food left over from dinner down from high-rise buildings, and even human shit, onto other people's walls or balconies ... Those things are really a headache for us. As a matter of fact, we have helped the government by agreeing to manage this complex. [But] we are very tired [of dealing with those people]. Some people's quality is too low, increasing the difficulty of our work. We have to spend a lot of time and energy explaining things to them or persuading them.

There exists competition among the PMCs even for this type of low-income housing. Once somebody tried to introduce another PMC to take over the property management and ultimately failed. Although the PMC manager attributed this matter to the 'personal greed' of that man, the story suggests that competition among PMCs is very strong. It has become very common in recent years to hear that a PMC has been fired or replaced.

What do the two cases tell us?

First, the over-subsidisation hazard does exist and is an important problem for low-income housing. The rent in MD Y is already very low, even lower than the property management fee in ordinary commodity housing, but many tenants still want to pay less, or even nothing. This is in stark contrast with commodity housing MDs. Many tenants in MD Y also cheated in order to stay in CRH even after they no longer qualified for CRH. Antisocial behaviour and encroachment on public interests are also important problems in both MDs that are more severe than in ordinary commodity housing MDs. All those things happened in public housing (CRH) that is owned and managed by a government agency. It is not difficult to imagine what would happen if it were managed by the residents themselves or by any board accountable to them. Public housing certainly helps to place the over-subsidisation hazard under control, although it cannot eliminate it.

Second, the other side of the coin is internal management cost and possible mistakes in resource allocation. From this perspective, housing management by government agency has many problems. For example, as a CRH complex, MD Y is lagging behind in cleaning, landscaping, facility maintenance and so on. It lacks some basic public services, such as security, and property management inside the complex is almost limited to cleaning. Any matter bigger than cleaning has to be reported to the Housing Station, which, upon approval, may send people to MD Y to fix the problem. The whole process is very slow and costly and could easily result in mistakes in resource allocation. In short, governance efficiency is very low in public housing, especially when compared with commodity housing MDs. For example, in the survey conducted by the author in the two commodity housing MDs, only 5.65 per cent of homeowners are not satisfied with the performance of the PMC, 29.57 per cent feel just so so, and 64.78 per cent are very satisfied or satisfied. The governance efficiency in commodity housing MDs is apparently much higher than in CRH, although there are also many challenges in the former.

Third, market institutions can help enhance the efficiency of housing institutions. MD C is a typical example that relies on a PMC for housing management. It shows that PMCs are willing to get involved in the management of public housing. Actually many PRH complexes in Chongqing are managed by PMCs. Competition among PMCs helps to enhance the efficiency of housing management, leading to better provision of collective goods, lower management costs and fewer mistakes in resource allocation. Any visitor to MD C can easily tell that it is better managed than most other CRH complexes.

Fourth, for-profit market institutions have their downside for low-income housing. In the story of MD C, the PMC is suspected to encroach upon the interests of the homeowners by appropriating the income from parking fees to pay for management costs. The firm is strongly motivated to make a profit and thus could easily

compromise the equity objective (Hart et al., 1997) of housing subsidisation. That may be why non-profit organisations have a special position in institutions for housing subsidisation.

Overall, both local leaders and interviewees regarded these two communities as typical of CRH in Chongqing. My empirical findings are also consistent with the literature. For example, Zeng et al. (2017) found that a high percentage of public-housing residents chose fraud; Li et al. (2019) found that many residents remain in PRH after they no longer qualify for it; and Wang (2016) indicated that many PRH residents do not pay property management fees.

Conclusion

Among the three possible angles to study housing subsidisation, this paper has focused on the relationship between the housing provider and welfare recipients. This is also an angle to examine the institutions for redistribution in general. My main theoretical argument is about the over-subsidisation problem, which says that welfare recipients always want to obtain more subsidies in various ways. This problem might not be severe with cash redistribution due to its low measurement cost. However, since housing attributes are much more complicated and difficult to measure, the over-subsidisation problem is more severe in housing subsidisation. The institutional form of public housing and social housing can help to mitigate the over-subsidisation problem.

My empirical study of two CRH communities in Chongqing, China, provides evidence for the over-subsidisation problem, as shown in tenants' refusal to pay rent, their cheating in order to stay in CRH, and their antisocial behaviour and other governance problems that are more severe than in ordinary commodity housing MDs. Moreover, the downside of public housing – low efficiency – can also easily be seen in the case studies. Market institutions such as PMCs can enhance the efficiency of neighbourhood governance, although its high incentive for profit might undermine the equity objective of housing subsidisation.

Existing studies of public housing and social housing often take for granted its particular institutional form in a particular country. The contribution of this paper to the literature is its analysis of a general problem, i.e. the over-subsidisation problem, which underlies the institutional forms of housing subsidisation. Put another way, this paper has offered a general analysis of the institutions of public housing and social housing.

Some interesting questions remain open for future research. First, I isolated the relationship between housing provider and the poor from the other two possible angles to study redistribution. But it is possible that there might be interactions among the three pairs of relationships. It is then interesting to explore what are the main factors for public housing and social housing from the other two perspectives. Second, in

the case of low-income housing, an important type – privately owned and operated leasehold, which is publicly subsidised in the USA – is absent in China. It is, then, important to study the applicability of that type of institution in China. Third, is the over-subsidisation problem unique to housing? Can we apply it to other kinds of institution for redistribution? When we study the institutions for redistribution in general, it will be interesting to explore what other factors may play a role.

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