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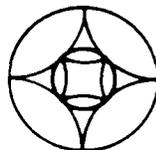
AN INSTITUTIONAL ANALYSIS OF HOUSING ISSUES

by

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INTRODUCTION

Housing is one of the most important goods we consume daily. Most people spend most their time in their houses each day. The location of your house affects many other aspects of your life. It constrains your choice of your children's schools. It also determines how much time you have to spend commuting to your place of work everyday. In most market-oriented societies, the bulk of housing is provided by the private sectors. However, in most of these societies, governments also play an important role in regulating the housing markets. Some government even directly provide housing for part of their populations. This paper aims at examining the proper role of collective or governmental actions in housing. It is the basic contention of this paper that housing is a good with multiple characteristics, such as structural features, locations and neighborhood. Different households may have different preference orderings of these characteristics. Since demands for some of these characteristics of housing may not be best satisfied through markets, some collective or governmental actions may be necessary. However, since the nature of each of these characteristics may differ from the others, complex institutional arrangements may be required to satisfy housing needs and demands. This paper first discusses some characteristics of housing. Next, some institutional considerations regarding housing are introduced. Then three housing issues -- building regulations, housing subsidies and urban renewal -- are discussed briefly to highlight how different institutional arrangements may be used to tackle different kinds of housing problems.

SOME CHARACTERISTICS OF HOUSING

The nature of a good affects the way it can best be

provided and allocated. Goods, which are highly divisible and packageable, can most efficiently be provided by markets. However, for those goods which are characterized by jointness of consumption and non-excludibility, markets may not be an appropriate means of providing such goods (Ostrom & Ostrom, 1977). Since individuals can hardly be excluded from enjoying the good once it is provided, each individual would find it in his own interest to withhold payment so long as enough of others are paying to ensure an adequate flow of the good for all. In such a situations, some forms of communal or governmental action are necessary to ensure an adequate provision of the public good.

Housing is special in the sense that it exhibits both the characteristics of a private and a public good. Without attempting to be exhaustive, this section highlights some of these characteristics. As a shelter, housing is a typical private good. It can readily be fenced off from outsiders. In this regard, markets are the best means of providing such a good. However, there are other characteristics of housing which complicate the matter. Though a house can be excluded from outsiders, it is not entirely packageable in the sense that you can consume it wherever you prefer. A house is fixed in a special location. The neighborhood of your house may affect the quality of your living as great as the structural features and facilities of your house. In many cases, the neighborhood of your house is up to your own choice when you first decide to buy or rent a house. However, once you brought or moved in a house, the changes in your neighborhood are often beyond your control. Neighborhood can be conceptualized as a kind of public goods. It may be desirable for each household in a particular locality to see its neighborhood improved. However, since, once a neighborhood is improved, its beneficial effects can be enjoyed by other households in the area, the "free-rider" problem associated with public goods

arises. In this case, some collective or governmental actions may be necessary to handle the neighborhood problems.

Closely related to the neighborhood factor is that housing needs a lot of infrastructure. Access to housing in the form of roads and streets is required. Other facilities such as drains, sewers and streetlighting are needed too. Many of these exhibit characteristics of nonexclusion and jointness of consumption. Governmental or communal actions may be required to ensure the adequate provision of such facilities.

It is also argued by many people that housing may have profound influence on one's physiological and psychic well-being, which might indirectly affect others. Some people also suggest that poor and crowded housing may induce violent behavior (see True, 1979, pp.125-127). It is, therefore, in the interest of the whole society to improve the standard of housing, especially that of the poor. Such kind of argument has, however, met with a lot of objections since it is difficult to establish really firm correlations between housing standards and other variables such as the health of the occupants or the rate of crime in a district. This problem is further discussed in the next session.

Another characteristic of housing is that the expense on housing usually occupies a large portion of the income of a family. For some families which rent their houses, they may have to spend up to 30% of their income on the rents. For those trying to buy a house, they usually have to get mortgages from a financial institution to make it possible. It is because of this high financial stake of housing that some people relate it the general redistributive policies of a government. To help improve the housing of the poor or lessen the financial burden of the poor in housing can be

regarded as part of a redistributive policy. Redistribution can be conceptualized as a kind of public good which might be desired by the majority of the population but difficult to be carried out by individual acts. For example, one may like to see his neighbors be saved from starvation. But if these neighbors can be helped by others, he may like to save the trouble of helping them by himself. However, there has been great dispute on whether it is necessary for a general redistributive policy to specify subsidies to housing. This problem is discussed in a later part of this paper.

SOME INSTITUTIONAL CONSIDERATIONS

As discussed in the last section, housing exhibits both "public goods" and "private goods" characteristics. In a sense, housing is a pure private good, the consumption of which can easily be excluded from others. Furthermore, different households' demands on housing differ a lot. For some households, the structural features of a house may be the most important factor of consideration. While, for others, the location of the house is more important. In general, different households have different preference orderings of these factors. In addition, households differ in their valuation of housing in relation to other goods, such as food and medical services. It is virtually impossible for any collective or governmental agents or bureaucrats to plan a comprehensive system which can satisfy all the diverse needs of the people simultaneously. In most cases, individuals are the best judge of their own needs in housing. In this regard, the markets are the fundamental means of satisfying people's demands in housing.

However, as we have argued earlier, housing also exhibits some "public goods" features. In areas such as neighborhood improvement and minimum safety standards, collective or governmental actions may be necessary to ensure they can be taken care of. For a Public Choice

theorist, to design institutional arrangements for the provision of such typical public goods as police and fire services, one has to make sure that the goods can be produced in a most efficient way and also in a way that they can satisfy the actual needs of the people affected. As far as housing is concerned, the task seems to be more complicated. Since a large part of the housing demands can best be satisfied through the markets instead of collectively imposed decisions, when designing collective or governmental arrangements for handling some "public goods" aspects of housing, one has to be careful to avoid imposing undesirable constraints on the choice of individual households.

The task is further complicated by the fact that it is often difficult to determine technically many of the actual effects of housing which warrant collective actions. As mentioned earlier, poor housing might affect the health of its occupants. However, no one can really tell the actual extent of the influence. People can cite the case, say Hong Kong, where the housing for the majority of the population is below the minimum standards of the U.S., but the level of health in Hong Kong is not worse than in the U.S. The appropriate minimum housing standard for a community depends a lot on its level of wealth and available resources.

One may say that it is always a good idea for whatever reasons to have the standard of housing of the poor improved if we do not have to count the costs. One may like to see the housing of his poor neighbor improved. However, if he understands that he has to pay for part of the cost of the improvement, he may have a second thought on it. This shows that though collective or government arrangements may be necessary to improve our housing conditions, one has to take into consideration its effects on different individuals or groups of individuals. Here, we are not arguing that the

choice of any particular collective action or arrangement can be settled once-and-for-all by some kind of aggregate cost-benefit analysis. Instead, different possible institutional arrangements have to be evaluated by comparing among themselves.

A most fundamental criterion of evaluation would be whether the arrangements can facilitate, whenever possible, the free choice of the individual households concerned. The costs of establishing and maintaining a specific institution are, of course, important. However, when deciding housing policies, a government has to guard against the possibility of unnecessarily constraining the choice of the individual households and distorting the incentive and signalling structure of the markets.

In some situations, collective actions can act together with some market forces to produce desirable results. For example, a government may decide that it has to take a lead in developing new residential or suburban areas, which, otherwise, can hardly be started by any spontaneous market forces. Realizing the utility of developing a new area does not mean that a government has to 'plan' for the details of the pattern of the development. By providing some basic infrastructure, outlining some basic regulations and taking a lead in making some investment in public projects in the area, a government can help trigger off market forces which may develop spontaneously by themselves thereafter.

In regard to the total amount of resources a community should devote to a particular public program on housing, as we have indicated, there can hardly be any technical or once-and-for-all solution. These might have to be settled through political processes. Political processes, however, are not necessarily 'arbitrary'. It is possible to conceive institutional arrangements which may help produce

'reasonable' political choice. An example in this regard is the principle of fiscal equivalence as suggested by Vincent and Elinor Ostrom, which stipulates that those receiving the benefits from a service pay the costs for that service (1978, p.31). Or, as formulated by Hayek, "A rational decision on the volume of public expenditure is to be expected only if the principle by which the contribution of each is assessed assures that in voting on any expenditure he will take the costs into account, and therefore only if each voter knows that he will have to contribute to all expenditure he approves in accordance with a predetermined rule, but cannot command any thing to be done at somebody else's expense (Hayek, 1982, III pp.52-53)." A possible institutional implication of this principle is to have smaller units of collective consumption whenever possible, such that voters can evaluate more carefully the financial implications of any collective program they endorsed. Such a principle is relevant, for example, when dealing with the maintenance of the neighborhood facilities of a particular housing district.

Such a principle is a corollary of the 'packaging' principle advocated by Ostrom, Tiebout and Warren (1961). They argue that the scope or scale of the effects of a public good may differ. A playground creates externalities which are neighborhood in scope, while national defense activities benefit a whole nation. A collective consumption unit for a particular public good should be so organized that only those people directly affected by the good be included within the boundary of the collective unit. In their words, "where a public good is adequately packaged within appropriate boundaries, it has been successfully internalized (p.835)." It is under such a condition that we have the most efficient allocation of resources.

This principle of organizing collective consumption

units can be applicable to different characteristics of housing. For example, perhaps for the sake of redistribution, a community may like to see the poor households have a higher standard of housing. In this case, the subsidy program may be financed by the national government. In the case of neighborhood improvement, since the benefit that can be achieved would tend to be very localized, smaller units of local collective or governmental bodies may better handle the task.

Another important institutional consideration is the difference between the provision and the production of a public good (Ostrom & Ostrom, 1978). In order to prevent the 'free-rider' problem, we may have to establish some appropriate collective consumption unit to ensure that each benefited individual shares part of the cost for providing the public good. This, however, does not mean that the particular good has to be produced by the governing body of that particular unit of consumption. The collective unit may buy the desirable collective goods or services from other private enterprises or governmental units. In other words, the production task can be separated from the collective consumption unit which is responsible for raising the fund. Such a separation of provision and production allows more varieties of a public service delivery system. In the case of housing, a government may, for example, provide housing allowances to the poor households. The households then can improve their housing by purchasing directly from the markets. Or in the case of public housing, a national government may provide the fund but the local governments would be responsible for constructing and maintaining the housing units.

There are a large range of principles and institutional arrangements one may utilize in solving housing problem. Conceptually, it is possible to handle problems regarding

different characteristics of housing by different combinations of market and collective arrangements, and different levels and units of collective actions. However, it would be a matter of highly practical skill to see how these different instruments can be applied to solve actual problems. Indeed, in some cases, a collective consumption unit may produce outcomes which affect others. For example, urban renewal programs in the cities often result in the situation that when valuable and commercial buildings are built in the redeveloped area, the low-income households are forced to move outside the city area. Some higher-level governmental units may have to take measures to help these dislocated households. This shows that there can hardly be any simple solution to many real life problems. As an institutional analyst, one would have to consider complex orderings of institutional arrangements and to appreciate the logic of the situation under consideration. In order to demonstrate these points, this paper briefly discusses how different institutional considerations may bear upon three selected housing issues -- building regulations, housing subsidies and urban renewal.

BUILDING REGULATIONS

Most governments set regulations governing the construction standards of buildings. In many cases, such regulations are necessary. This is especially true for the minimum safety standards of a building. People would like to have some assurance that the buildings they live in or enter are reasonably safe. However, it could be very difficult for an ordinary person to judge the safety of a building on sight. It is especially the case for those commercial buildings which are open to all. To reduce the otherwise high costs of individual life and property, it is appropriate for a government to help ensure certain minimum standards of construction and building safety.

In a sense, it is difficult to determine what are the appropriate minimum standards of housing. However, one must be aware that the more stringent the regulations, the higher would be the cost of construction and therefore the prices of housing. Furthermore, if the regulations are too stringent, it may also prevent experimentation with new methods of construction on the part of the constructors. In certain situations, some unreasonable building regulations would even act as an obstacle to an adequate supply of housing. Steven Cheung has discussed a very interesting example in an article about housing reconstruction in Hong Kong (1979). In the 1950s and 1960s, there was a great demand for housing in Hong Kong due to the ever-increasing population. However, there were regulations limiting the height of buildings. According to an ordinance, the height of the main wall facing the street should not exceed 76 degrees from the horizontal, with greater heights permitted for corner and 'island' lots. Since the demand for housing in the period was so great, developers tried to maximize the height of the buildings they constructed. It turned out that it became a routine in 1963 and 1964 to construct a building in the manner as illustrated in Figure 1. Since under the ruling of a 76-degree angle from the horizontal, a constructor could increase his floor space if he chose to set back the top stories while still observing that angle for the hypotenuse. This way of construction greatly increased the cost of a building, since the cost for the floor space was especially high due to the irregular structural framing and the decreasing area for each of the set-back floors. This example nicely demonstrates that building regulations may unnecessarily limit the supply and increase the cost of housing.

Many institutional considerations may be relevant to setting and enforcing building regulations. An interesting consideration is whether the regulations should be set by

central or local authorities. In the former case, the setting up of the regulations can be less influenced by any possible local monopolies. Furthermore, it may help the growth of construction firms which can afford more research and development in building technology and can better utilize the economy of scale. In the latter case, local authorities can probably be more adapted to the changes in local needs. In addition, as argued by Hayek, "the competition between local authorities will bring about a more rapid elimination of obstructive and unreasonable restrictions than would be possible if the codes were uniformly laid down by law for a whole country or large region (1960, p.356).

It seems that there is no definite answer on whether central or local authorities can better do the job of setting building regulations. Indeed, one may arrive at the conclusion that different regulations can be set by different levels of governments. For example, general safety standards for construction may well be set by higher-level governments, whereas regulations such as those stipulating the maximum height of buildings in a particular area can be set by local authorities. However, in most cases, building regulations have to be enforced by local officials. Institutional arrangements in local levels regarding the enforcement of those regulations would definitely be decisive in affecting the outcomes. For example, local agencies such as tribunals facilitating the settlement of any dispute between constructors and regulation-enforcement officials may be able to promote the efficiency of housing construction.

There are also authors who argue that we do not necessarily have to rely on governmental agencies to enforce safety standards of buildings. As argued by Colwell and Kau, "market mechanisms can deal fairly well and efficiently

with issues of building safety, provided that the rules of the game are structured appropriately (1982, p.57)." They suggest, for example, that safety standards can be upheld by some kinds of insurance system instead of governmental monitoring. A government may set up rules requiring building owners or builders to buy liability insurance. Different insurance companies could then have different standards associated with different levels of safety and different premia. According to Colwell and Kau, such a system allows more diversity and flexibility which, otherwise, would not be possible in the case of government units enforcing a uniform set of regulations. It seems that a possible problem would be that such an insurance system may be very expensive to operate. Some empirical works might be necessary to determine the case. Nonetheless, Colwell's and Kau's suggestion does remind us that some possible market arrangements might be supplementary to the governmentally enforced regulations.

HOUSING SUBSIDIES

Housing subsidies are often discussed as an alternative to public housing. There are many aspects in which housing subsidies fare better than public housing. First, in many cases, public housing cannot cater for the neediest families. There have been studies showing that in places such as the United States, Britain and Hong Kong, the benefits of public housing failed to be extended to the poorest or neediest sector of the population (see Walker, 1981, p.161; Frieden, 1980). For example, according to a study undertaken in Hong Kong a few year ago, 25% of families living in public housing had an income higher than 60% of those in private housing, who might pay more than 30% of their income for rent (see Law, 1982, p.115). This was mainly due to the policy that as long as a household had an income below a certain limit, it was eligible to apply for public housing. The assignment was then according to a

"first come, first served" principle. By this principle, the poorest household might still have to wait years to get an assignment. Besides, a benefited household might continue to stay in a public housing unit disregarding the income level. It, therefore, turned out that the family income of some tenants in public housing was indeed substantially higher than the income of those living in sub-standard private housing. This situation is against a commonly accepted principle of helping the neediest first. There are, of course, other possible arrangements to handle such kind of problem. For example, there may be rules requiring a household to move out of the public housing unit if its income exceeds a certain limit. Or, households with higher income can be charged higher rents than those with lower income. Such kinds of arrangements may, however, create many additional problems. For example, in the case of Hong Kong where public housing is very much desired by average-income families, the policy may force a household in public housing to give up opportunities to increase its income in order to avoid being removed from the housing unit.

Second, if a public housing project is really 'successful' in the sense that the houses provided are cheaper and more desirable than an average income family can get in the private market, it may probably generate more demand than what can be handled by a government. This is precisely the case in Hong Kong, where a household has to wait an average of eight years to get a public housing unit. Since the rent for public housing is substantially lower than for private housing, the people in public housing would fare better than those immediately above them on the economic ladder. In the words of Hayek, "pressure from the latter to be included in the scheme would become irresistible, a process which would repeat itself and progressively bring in more and more people (1960, p.345) "

This situation indeed happened in Hong Kong. In the late 1970s, the Hong Kong government began its Home Ownership Scheme which has basically been targeted toward middle income families. This, indeed, resembles a "common dilemma" situation when most people are trying to get extra benefit from the common budgetary pool of a government. As Hayek has warned, "unless the authority succeeds in supplying as much of this better and cheaper housing as will be demanded at the rents charged, a permanent system of allocating the available facilities by authority will be necessary -- that is, a system whereby authority determines how much people should spend on housing and what sort of accommodation each family or individual ought to get (1960, p.346)."

Third, public housing limits the choice of the households. For example, different households may have different needs in regard to the preferred locations of their houses. Public housing would limit their choice to some specific locations. A public housing unit may mean a great saving in terms of a household's expense on rent. However, it may also mean a great increase in the time and money that members of the household have to spend commuting to their places of work every day. Furthermore, since families have to stick to their houses, this may greatly limit the labor mobility from one region to the other region. These are some of the costs that public housing may create for a society.

In comparison with public housing, housing subsidies or allowances have a number of advantages. First, they can more easily reach the neediest families. The households can also be subsidized in such a way that the neediest get more than those less needy ones. By such an arrangement, the households near the ceiling of the income limit would get very little subsidy. This would lessen the demand for

inclusion by more and more families as in the case of public housing. Second, the recipients would have greater choice in allocating the resources provided by purchasing directly from the markets. Housing subsidies, in fact, represent a very good case where the provider (probably the federal government in this case) of a public good differ from its producers (in this case, numerous private enterprises and individuals).

Some people have raised doubt about whether the housing markets can really respond 'appropriately' to the rise in demands generated by housing subsidies. It is argued that, since it takes a long time to build houses, the supply of housing is highly inelastic. A sudden increase in housing demand might not generate more and better housing. It might raise rents, thus benefiting the house owners or developers instead of the poor households (Lansley, 1979, ch.1).

Some experiments have been done on the effects of a housing subsidy on markets. For example, part of the Experimental Housing Allowance Program (EHAP) undertaken in the 1970s examined these effects at two sites, Green Bay and South Bend. The experimenters found no evidence of program-induced inflation. Nevertheless, according to one of the reports of the program, "There appear to be two major factors contributing to this result: (1) participation levels have been lower than anticipated and (2) participants have increased their housing expenditures by only a fraction of the payments they received (Carlson and Heinberg, 1978, p.xv.). The effects of a large scale housing subsidies program, therefore, remain to be examined. However, it seems that even for a large scale subsidies program, price inflation can be a short-term phenomenon only. In the long run, the market would eventually generate more supply. In addition, a government may help by introducing other policies which induce more supply of housing. Furthermore,

there is no reason to believe that public housing projects can better satisfy the demands of the people than the markets.

There is a sticky problem about the possible contradiction between household preferences and collectively decided standards. As mentioned earlier, one of the strong points for housing subsidies as against public housing is that the former allow the benefited families more choice and flexibility. However, many economists have pointed out that, for most households, the income elasticity of demand for housing is less than unity (e.g. Walker, 1981, p.148). The findings of the EHAP corroborate this argument. In the program, most subsidized families spent the bulk of the subsidies on expenses other than housing. In general, they were reluctant to move to better houses. They were pleased if they could improve their existing homes at small cost and thus fulfill the requirements of the allowance program (Frieden, 1980). Furthermore, it was found that "the higher the quality of housing required to qualify for subsidy payments, the lower the program participation by those living in low-quality housing (Bradbury & Downs, 1981, p.376)." It is not difficult to explain the phenomenon. Those families living in substandard housing had either to move to new housing units or upgrade their present units considerably if they wanted to be eligible for the subsidies. These might cost a lot of money. Many of them were just not willing to invest so much to improve their housing conditions to make themselves eligible for the allowance.

There can be two possible perspectives of looking at this phenomenon. From one perspective, this phenomenon shows that poor people in general do not assign a very high priority to the quality standard of their houses. In order to encourage greater participation and allow the poor

greater choice, housing subsidy programs should not impose any housing quality standard on the participants. Indeed, the best long-term strategy is to integrate housing subsidies and other kinds of subsidies, such as food, into a single income support scheme. To do so would not only enlarge the choice of the poor but also reduce the enormous administrative costs associated with different kinds of subsidy programs. From this perspective, the public good that is to be achieved is some kind of redistribution of a social security system such that no single family should have income fall below a certain minimum level.

From another perspective, a government should take active measures to improve the quality of houses, especially of the poor, mainly in consideration of the "public good" features of housing -- such as its neighborhood effects, its effects on the physical and psychic well-being of the occupants, its effects on crime rate, etc. The scopes of the effects of these features would be different from each others. Different consumption units or institutional arrangements are needed to deal adequately with each of the features. Housing subsidies can be only one of the many available instruments. Furthermore, even if we focus on housing subsidies only, there are also various kinds of institutional arrangements to tight the subsidies with the goal of improving the quality standard of housing.

One possible way to achieve the aim is, like some of the projects of the EHAP, to require the subsidized households to maintain a certain quality standard of their housing. However, in this regard, problems arise as on what basis we can determine the appropriate minimum quality standard. How can we really calculate the effects of a particular feature of a house? For one of the projects of the EHAP, there was a specification on the minimum size of the windows of a house. The problem is how we can say that

a house with windows a few square inches smaller than the standard size would have any significant effect on the occupants or even the society. It seems ridiculous to require a household to enlarge all the windows of its house for a few inches before granting it a subsidy.

Welfel has suggested another arrangement which seems more reasonable (1982). He argues that the subsidy a household receives should be determined by its rent-income ratio. If a family prefers improved housing, it must prove it by bearing a portion of the additional rent. In other words, a family should receive greater subsidy than another family of equal income if the former is willing to spend larger portion of its income on housing than the latter. By such a system, the households can be induced to play a part in improving the quality of their houses. The system also avoids the difficulty of determining the minimum housing standards. Indeed, the system is in a spirit similar to the principle of fiscal equivalence mentioned earlier, which argues that those receiving a service pay the costs for that service.

URBAN RENEWAL

Some economists argue that, in some situation, urban slums may represent an optimal allocation of resources (Rothenberg, 1970). The poor may not be able to afford much for their housing but they desire the conveniences of residing in the urban area. Slums which offer them cheap shelters are indispensable for their survival in the urban area. At the same time, the landlords, by reducing the maintenance costs and maximizing the occupancy rate of their houses may get the maximum possible rate of return for their investment. From this perspective, there is no reason why a government should take actions eliminating such slums.

There are, however, cases in which collective or governmental actions may be necessary. Such cases are usually connected with the 'public goods' (or alternatively speaking, 'public bads') features of slums. For example, residents or landlords in a particular area may foresee that if most of them can take actions to improve or redevelop their houses simultaneously, their living environment or the values of their properties can be improved. In order to prevent the 'holdout' or 'free-rider' problem, some collective or governmental arrangements may produce better results than otherwise possible. The "public goods" produced in such cases could be quite localized, meaning that it is mostly the residents or the landlords in the particular area which are to be benefited from the improvement or redevelopment project. According to the 'packaging' principle mentioned earlier in this essay, the collective unit responsible for the task should better coincide with the neighborhood requiring improvement or redevelopment. Besides ensuring that the benefited parties would be responsible for the costs and risks associated with their collective actions, such an arrangement would also help ensure that the particular circumstances of the area and the needs of the people concerned can be appropriately reflected in the collective decisions. Assuming that the residents or the landlords in an area know their interests best, a government should refrain from imposing any uniform renewal plan on different areas. Instead, a government should encourage the residents or landlords to negotiate their own renewal schedules. A government may help by assigning some staff responsible for initiating communication among the concerned parties in the area. It may also help by arranging necessary financial arrangements to facilitate the initiation of the projects.

In most cases, a government does not have to invest a large amount of money in renewal projects. If a renewal

project is really feasible, by coordinating appropriately the efforts of various individuals and private enterprises the project can bring net return to the parties concerned. In this case, there is no reason why a government should further subsidize those who will be benefited from the project. However, as documented by Moher (1985), many city governments in the U.S. have invested in urban revitalization projects which in fact benefited no one. According to him, many government officials were concerned more about the 'images' created by the urban revitalization projects. In some cases, it turned out that a government spent a large sum of money clearing low-income housing in an urban renewal site and later discovered that no one was willing to invest in the site (p.384). This shows that urban renewal or improvement requires the participation of the people, especially the residents or landlords of the area -- both in initiating and carrying out the project.

Urban renewal projects may have other side-effects as well. For example, the redevelopment of an urban slum into a profitable commercial area would benefit the landlords. However, this may create a lot of hardship for the poor households which have to be removed from their existing homes. To tackle such a problem, some governments have set laws which limit the rights of the landlords to remove their tenants. However, these laws may also create obstacles for renewal projects which are beneficial to the society. In his article on rent control and building reconstruction in Hong Kong, Cheung has demonstrated the point well (1979). In the 1950s and 1960s, there was rent control imposed on the pre-war buildings. The rent control ordinances went together with regulations restricting the right of the landlords in reclaiming the flats from the existing tenants. These regulations had created a lot of difficulty for the landlords to reclaim and redevelop their old and sub-standard buildings. In this case, the tenants of those

pre-war buildings were the ones most benefited from the regulations. However, the regulations had limited the supply of housing in general and indirectly imposed costs to other people who had to rent houses not protected by the rent control ordinances.

It seems that we better regard the hardship experienced by the poor households in the urban renewal projects as a general problem of poverty. We cannot regard an urban renewal project as doing injustice to the poor as we cannot say a factory is doing injustice to its workers when it decides to move to another better location. In such cases, a government may take measures to help those displaced households as a general social security or redistribution scheme. Housing subsidies, as mentioned, are probably a good means of helping those poor households. If the urban renewal project can be successful, the subsidies to the displaced and poor households are not necessarily a burden to the society as a whole. However, it would be a great waste if a government arbitrarily clears a low-income housing area as a renewal site and later finds out that no one is willing to develop the site.

SUMMARY AND CONCLUSION

Starting from the premise that housing has both "private goods" and "public goods" characteristics, this paper has considered some institutional arrangements which are relevant for solving our housing problems. It was argued that though collective or governmental arrangements may be required to solve problems related to the "public goods" characteristics of housing, they should be so structured that they impose as less constraints on the choice and initiative of the individuals or enterprises concerned. In addition, different units, including markets and various collective and government units, can be utilized

to produce goods for a particular collective consumption unit. It is by these principles we argued that housing subsidies are better than public housing. By the same principles, we also argued that it is worthwhile studying whether some forms of market mechanisms, such as an insurance system, may supplement governmental monitoring as a means of upholding building standards.

Following the Public Choice perspective, we adopted the principles that a collective consumption unit should be so 'packaged' that it coincides with the scope of the effects of the public good under consideration, and that, whenever feasible, the beneficiary of a public good pay his share of the cost of the good. When applied to neighborhood renewal, the principles show that, instead of some externally imposed governmental plans, the original residents or landlords in a neighborhood should be the primary agents for initiating and carrying out the renewal or improvement project. In the case of housing subsidies, provisions can be made to ensure that the benefited households pay their own part in improving their housing conditions.

Though this paper has dealt with three housing issues -- building regulations, housing subsidies and urban renewal -- separately, most of the analysis was done in abstract concepts and principles. In order to appreciate how these principles and concepts can be helpful in the design of institutions for solving actual housing problems, more evidence on how these institutions perform under varying situations is needed. It is hoped that this paper has laid the groundwork for further research along this line.

Figure 1

RENT CONTROL AND HOUSING RECONSTRUCTION

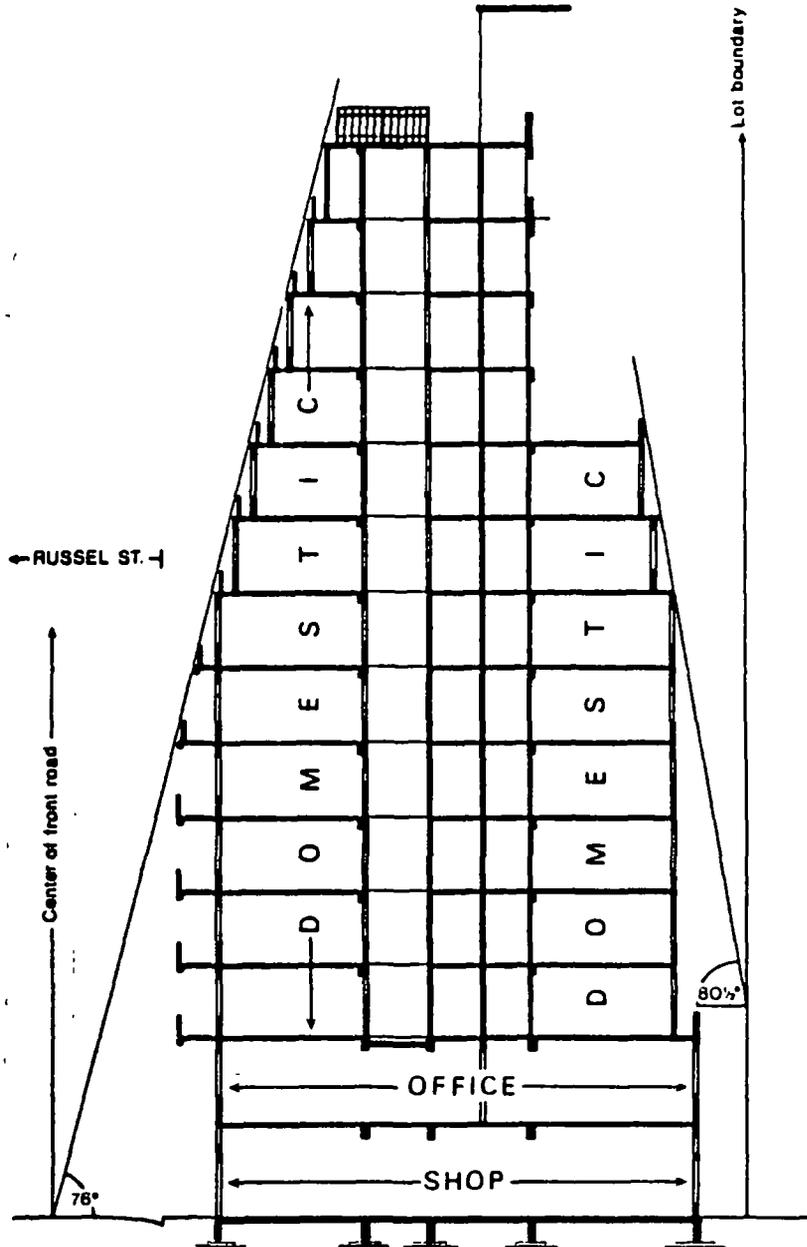


FIGURE I
THE SET-BACK
AS ILLUSTRATED IN PROPOSED BUILDING PLAN FOR SITE I L 29, SEC X, RUSSEL STREET

Source: Cheung, 1979, p.49.

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