



# Residential clustering and spatial access to public services in Shanghai



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## ABSTRACT

Commercialization of housing markets has significantly transformed the residential space in Chinese cities. However, few studies have examined social–spatial stratification of residential communities in relation to public services accessibility. This study explores how residential communities are stratified by housing prices and how such spatial clustering is associated with disparities in public service accessibility in Shanghai, China. The results demonstrate significant disparities between the central city and outer suburbs in housing prices and accessibility to public service infrastructure. The uneven process of urbanization and fragmented local government structure might have contributed to the concentration patterns and disparities in public service provision.

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## Introduction

Residential segregation by race, ethnicity, and class has been persistent for several decades in the United States (Coulton, Wang, & Su, 1996; Massey, 1996). The segregated groups do not just live in different communities, but also in separate local political jurisdictions, particularly municipalities and school districts. Due to the different fiscal capacity of local jurisdictions, the quality of public services varies widely across communities. For the poor and visible racial minorities in particular, residential segregation often results in restricted intergroup contact and constrained resources that directly impact their quality of life (Squires & Kubrin, 2005).

Public choice theory (Tiebout, 1956) argues that fragmentation of local governments creates a marketplace for residents to shop for political jurisdictions with different bundles of taxes and services. Racial minorities and the poor can organize their own autonomous communities to receive preferable services with lower costs, and have greater access to community decision-making processes (Ostrom, 1983; Ostrom, Bish, & Ostrom, 1988). In contrast, the social stratification–government inequality (SSGI) thesis (Hill, 1974; Lowery, 1999; Neiman, 1976) posits that extremely fragmented jurisdictions and political governance have actually created and

reinforced disparities in public service accessibility for spatially segregated residents.

While these perspectives have provided valuable insights, they assume “free” housing markets and unrestricted mobility of residents under Western democratic systems. How do they speak to a transitional–socialist economy that has very unique and complicated political and household registration systems, such as China? Using the framework provided by both theoretical frameworks, this study seeks to address the following questions in China’s context: How are residential communities spatially clustered under the transformation of market forces, and to what extent is residential stratification associated with public service provision?

This study answers these questions through a case study of Shanghai, a globalizing city but still constrained by institutional systems inherited from the traditional socialist economy and centralized governance structures. The purpose is not to “test” different theories on the relationship between government fragmentation and public service provision that are derived mainly from the experiences of Western cities, nor is it intended to identify the causality between them. Rather, as a very first step that has rarely drawn much attention in Chinese cities before, we want to trace out the spatial clustering patterns of both residential communities and public service provision, and the possible association between them.

Community clusters were investigated based on the average housing price of each community. From 1949 to the 1990s, residents in Chinese cities were mainly segmented by work units (*dan*

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wei), instead of being stratified by household income or wealth. After the 1990s, however, privatization of the housing market has provided a wide range of residential choices for people at different social and economic strata, as well as aggravating housing inequality and residential sorting by housing prices (Huang, 2013; Wu, 2002a). Different from traditional Western cities, however, residential sorting has not led to a decayed inner city and wealthy suburbs. On the contrary, the state-sponsored redevelopment projects in Shanghai gentrified the inner city areas, while extensively displacing the low-income population into the urban fringe (He, 2010; He & Wu, 2007). For those low-income residents who stay in the aged inner city neighborhoods but own a house, their high-priced housing assets result in much higher household-level wealth. For all these reasons, housing prices to a large extent reflect the socioeconomic status of households, based on which residential clustering is investigated in this study.

This study makes several contributions. First, although the transitional housing markets in Shanghai have received increasing attention recently, few studies have examined residential segmentation in relation to public service accessibility. Second, most existing literature in either public choice theory or the SSGI thesis is based on the assumption of “free” housing markets and unrestricted mobility of residents in Western societies, such as the United States. This study focuses on China as a transitional economy at the intra-urban scale that has demonstrated the combined forces of socioeconomic transitioning, marketization, and globalization. Third, most relevant studies in this area used fiscal expenditure/revenue to indicate the level of public service provision on the supply side. We provide a perspective from the demand side, that is, access to public service infrastructure.

#### *Public choice theory and the SSGI thesis*

The understanding of the relationship between local government structure, public service provision, and urban stratification within the metropolitan context has been heavily influenced by the Tiebout (1956) model. This model envisions a fragmented metropolis as a marketplace where residents shop for different tax and service packages offered by numerous small local governments. People with different preferences of services can “vote with their feet” to reside in the jurisdictions where the service and tax packages match their preferences. Subsequent research extended the model and argued that individuals weigh the costs and benefits of local government services in their residential location decisions. Local governments are primarily interested in the strength of their city's economy and, therefore, compete with other cities to retain and attract middle- and upper-income households and businesses (Jimenez, 2014; Peterson, 1981; Schneider, 1989). Literature in urban economics is consistent with the Tiebout model and finds public expenditure and public services are capitalized into housing prices (Bogart & Cromwell, 2000; Bowes & Ihlanfeldt, 2002; Downes & Zabel, 2002; Fack & Grenet, 2010; García, Montolio, & Raya, 2010; Gibbons, Machin, & Silva, 2013; Haider & Miller, 2000; Oates, 1969). In essence, this perspective argues that fragmented governance could improve public service provision, although a large number of empirical studies have not reached a consensus (Howell-Moroney, 2008; Jimenez & Hendrick, 2010).

While the public choice perspective emphasizes the efficiency of public service provision associated with residential location choices, the SSGI thesis is mainly concerned with equity issues. In the context of residential segregation, groups with advantaged classes or status seek to maximize control over scarce resources and maintain homogeneity in their communities. They establish independent jurisdictions to pass local zoning, building codes, subdivision, and other regulations that raise the costs of housing high

enough to exclude low-income people, and to prevent certain externalities regulated by broader governments from affecting them (Downs, 1994). Thus, the hierarchical residential structure may have been induced by market forces, as proposed by the public choice model. The fragmented governance has institutionalized and reinforced the hierarchical nature of residential structure by promoting and protecting unequal distribution of public resources (Feiock, 1986; Lobao, Hooks, & Tickamyer, 2007; Rusk, 1993). Thus, consumer choices in metropolitan areas are not completely exogenous (Howell-Moroney, 2008).

A large number of multidisciplinary studies have demonstrated that residential segregation has significant impact on the residents' socioeconomic wellbeing and health outcomes, and intellectual and social development of children (Korsu & Wenglenski, 2010; Li, Campbell, & Fernandez, 2013; Massey & Denton, 1993). While fortifying residential segregation, fragmented governmental structure could have reinforced the sorting process associated with the problems of deteriorated city centers, job–home mismatch, costly urban sprawl, and multigenerational poverty. Thus, the SSGI thesis calls scholars and policy makers to temper their enthusiasm for quasimarket provision/or production of local public goods and services, despite the controversies of the research (Jimenez & Hendrick, 2010; Lowery, 1999).

Researchers have never reached a consensus in this debate. However, these different perspectives have provided an important theoretical framework to understand the relationship between residential settlement patterns, public service provision, and governance systems. Although China is traditionally centralized in all the three aspects, marketization and privatization of the housing market and decentralization of the governance system have tremendously transformed residential distribution and service provision. Therefore, built upon the theoretical framework provided by public choice theory and the SSGI thesis and contextualized in Shanghai, China, this study seeks to offer insights to understand how residence is spatially clustered and to what extent residential stratification is associated with public service provision.

#### *Urban transformation and institutional transition in Shanghai*

Like most cities in China, residents in Shanghai lived in public or public-subsidized housing that was segmented by working unit (*dan wei*) from the 1950s to the 1980s. Housing privatization and the active real estate marketization since the 1990s have significantly transformed the socialist residential landscape characterized by homogeneous work-unit compounds surrounding old housing districts (Huang, 2013). In this process, those who used to live in public housing had the privilege over non-residents to purchase the housing at a subsidized price, and most people indeed made the purchase and became homeowners. Those latecomers who used to be on the waiting list for public housing had to purchase housing from the private sector at much higher prices. Thus, access to public housing in the socialist era has actually led to current differentiation in homeownership and variation in the conditions of housing. The differentiation is further reinforced by economic gains from public housing when the housing prices have rocketed with marketization. In this sense, marketization of housing markets, reinforced by traditional hierarchical socialist housing-allocation systems, has significantly aggravated residential inequality in Chinese cities.

Homeowners with higher social status in the socialist era received more subsidies from the government, and thus, they could afford to move out to desirable locations or preferable communities. After they moved out, their dwellings were occupied by people who bought the house from the open housing market and most probably were not associated with the original residents'

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