Stability by Change

The changing public-private mix in social welfare provision in China and the Netherlands

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1. Introduction

Currently, the topic of social welfare provision is drawing a lot of attention in both the Netherlands and China. "Change" of current social welfare systems is needed in both countries due to the economic growth in China and the economic and financial crisis in the Netherlands, respectively. Both governments should think about a new division between the responsibilities of the state, the individual citizen and the market. Both countries have to develop new socially and financially sustainable systems of social welfare provision. From the angle of public-private mix, this paper seeks to discuss the institutional evolution of systems of social welfare provision in the Netherlands and China, with a focus on health care, social housing, and pension provision/elderly care.

Although the Netherlands and China are very different in the terms of demography, geography, history, institutions, and social-economic conditions, they have one in common: both are countries in transition with regard to social welfare provision. On the one hand, China has experienced an annual GDP growth of 10 percent on average over the past three decades, making it the world's second largest economy in 2010. This has made it vital for all citizens to share in the benefits of this economic growth through social welfare provision, particularly the rapidly increasing ageing population which requires institutional changes in elderly care (Liu and Sun, 2013). On the other hand, in the Netherlands the existing systems of welfare provision such as healthcare and elderly care have become too expensive to meet all the needs and demands, that is to say, the old and 'traditional' values of solidarity and equality are under pressure. In additional, the crisis on the housing market in combination

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with a decreasing (even negative) economic growth as a result of the global recession of 2009 has led to calls for fundamental institutional reform.

In this context, the challenge for both countries is to build responsive, (financially) sustainable and efficient institutional frameworks for social welfare provision. This is necessary because responsiveness, sustainability, and efficiency are important (though not the only) preconditions for stable institutions. Furthermore, doing nothing is not an option since in the long run it will create problems with legitimacy and/or financial sustainability. The authors propose that an optimal approach should be one of "*stability by change*", which requires a rethinking of the public-private mix at all four levels we distinguish in the paper: system, organization, partnerships and values.

Because of the complexity of social welfare provision, which includes various domains, and the research gap which we found to exist, the aim of the paper is to shed light on this issue from the angle of public-private mix. Regardless, in order to make an in-depth comparison between both countries, more research needs to done in the future. This paper includes three main parts, starting with an introduction on the realms of 'public' and 'private'. Next, social welfare provision in both the Netherlands and China is explained with a focus on public-private profiles, and the current systems under pressures are discussed as well. Lastly, we conclude this paper and point out the perspectives for further research.

2. Public and private

Few words are used as often in public administration research as the words 'public' and 'private'. But what do they mean and to what do they refer? When do we call an organization public or private? What's the criterion: the legal form, the nature of the activities, the dominant values? What is a public value? Is 'privacy' a public or a private value? And so on. This paper does not aim to extensively discuss the philosophical basis of the concepts of 'public' and 'private'. To distinguish between public and private however, in this paper we focus on four 'levels' which can be identified in the public-private dimension. By doing so we believe to have created an elementary analytic tool with which to describe the developments in social welfare provision (see section 3 and 4). The levels we distinguish between are: systems, organizations, partnerships and values.

A system can be public, private or mixed. We call a system public when the state is more dominant in regulation, financing and controlling the production and allocation of (social) goods[3]. Conversely, a system is private if the market or civil society takes the leading role in the production and allocation of these goods. Finally, a system is mixed if the state, civil society and market are all involved with the production and allocation and their respective roles and responsibilities are divided in such a way that the system is neither public nor private.

Not only systems, but also organizations can be public, private or mixed (also called 'hybrid'[4]). A totally public organization would be an organization completely financed by public funds (taxes, premiums, levies etc.), regulated and controlled by the state, and only carrying out public tasks. An organization becomes more hybrid as these public funds and public tasks are combined with gains from market activities and/or is regulated by rules set by the branch (see e.g. branch codes and codes of conducts of lawyers, advocates or doctors).

When public and private parties choose to work together, this might result in public-private partnerships[5]. Within this category we can distinguish between partnerships between government and private enterprises and partnerships between governments and civil society (i.e. citizens and their organisations). In the partnerships between government and private enterprises it is common to differentiate between the concession model and the alliance model[6].

The fourth perspective is that of values.[7] We can make a distinction between public and private values. Some values, like honesty, profitability, privacy or self-interest are (at least at a first glance) clearly private values, while other values such as accountability or legality appear to be clearly public values. However, this distinction between public and private values is in fact somewhat confusing since most values have both a public and a private dimension. Privacy for example can be seen as a private value in the sense that it is an

[3] This is what Bozeman (1987, 2003, 2007) calls 'publicness'. See also Pesch (2005).
[4] See for example Koppell (2003) and Karré (2011).
[5] Although there are other forms of partnerships (i.e., Public-Public and Private-Private), this research focuses on the form of public-private.
[6] See for recent trends in public-private partnerships: P. de Vries and E.B. Yehoue (ed.), The Routledge Companion to public-private partnerships, Routledge, London, New York, 2013.
[7] See for example Bozeman (2007) and Van der Wal (2008).

individual right, but also as a public value as too much emphasis on the individual's right on privacy can be harmful to state security.

The relevance of the blurred line between private and public values is the determination whether an evolution in the dominant values has taken place in the sectors we describe. Has there been a shift from (public) values that are traditionally associated with the state or society to (private) values that are traditionally connected to the market? For example, has there been a shift from 'solidarity between generations' to 'being responsible for one's own life'? Or from accessibility to affordability? Or is it in fact the other way around?

3. The Netherlands

3.1. Health care

The Dutch health care system has its origins in the various private health insurance funds established at the end of the 19th century. These funds were very diverse, while some had the working class and trade unions work together, other funds were a joined initiative of commercial insurance companies and wealthy citizens, or arose from cooperation between e.g. doctors and pharmacists. Over the years many companies established their own health insurance fund, while during the 20th century the system became increasingly regulated by the government as well as rules that came from within the sector (e.g. professional standards set by the union of doctors).

At the time of writing there is a compulsory basic health insurance for every citizen which provides coverage for basic health care provisions (like a consult from the family doctor or a surgery) are paid. Every year the government sets the cost and contents of this basis insurance coverage. Health care insurance companies are obliged to accept everybody for such a basic insurance, regardless of pre-existing conditions. People who cannot pay the premium are eligible for financial compensation from the government ('health care benefits').

In addition to this basic health insurance provision people can make a personal choice to pay extra for a more extensive insurance coverage. The health care insurances (basic and additional) are offered by a number of private health insurance companies who compete with each other. The health care insurance companies contract health suppliers (e.g. hospitals or

doctors) on the basis of price and quality. So (at least in theory) there are two markets: the market on which insurance companies compete with each other and try to get new clients, and the market on which insurance companies negotiate in the name of their clients with health care suppliers to get services provided at a good quality and a good price.

Promoting public health is defined in the Dutch Constitution as a public task for the government. The government does so by creating a strictly regulated hybrid system (a) in which compulsory elements (e.g. the obligation for people to be insured) are mixed with free choice and own financial risks for citizens, (b) in which competition goes together with rules to prevent exclusion and discrimination and (c) in which prices for medicines and treatments are partly set by the government and partly the result of competition between health care insurance companies and suppliers on the health care markets.

As for the system for elderly care, for those elderly who are in need of a substantial care and therefore can no longer live on their own in their own house, there are nursing homes in which provisions for living and care are combined. These homes are paid for from a national insurance ('the Exceptional Medical Expenses Act') for which every citizen in the Netherlands pays a financial contribution. In this way a certain form of solidarity between the young and old, and between the healthy and those in need of care, is guaranteed. The Dutch government has announced significant reforms in the elderly care system: elderly have to stay in their own homes longer and will receive care at home longer before being able to go to a nursing home (until living at their own has become too dangerous). Additionally, some responsibilities for elderly care are decentralized from the national government to the local authorities. Furthermore, the provisions for care and living are separated so that elderly can 'live where they want' and can buy their 'care at home'. In the long run most of the traditional nursing homes will disappear. Finally, in the future the role of family and neighbours in the care for elderly is expected to become increasingly important, as caregiving is becoming increasingly financially unsustainable. Thus government policy is aimed for a part on a shift from professional care towards a care provided by volunteers (the civil society).

The public values that are currently at issue in the Dutch health care system are quality, access and affordability (individual level) and financial sustainability (system level).

3.2. Pension provision

When citizens in the Netherlands have reached the age of 65 (this will be incrementally raised to 70 in the future) they have the right to receive an old age pension. This pension consists of three 'pillars' which provide part of the monthly retirement pension. First, part of the pension is paid by the state; this is a small 'basic income' for all elderly, regardless of employment and income. The second part of the pension is paid for by both the employer and employee, as during the working life cycle of the employee both make contributions into a 'moneybox' out of which this additional part of the pension is then paid. The third pillar is voluntary and consists of the savings and interests of individual people, which for example might have been invested in tax exempted annuity policies.

The 'moneybox' from the second pillar is managed by pension funds, which invest their clients' money and try to get good return on their investments. Pension funds are legally obligated to have a coverage ratio of more than 100 percent to ensure that they can fulfil their future obligations. The first pension funds that were connected to specific companies emerged at the end of the 19th century as a private initiative. At the start of the 20th century 'sectorial' pension funds emerged, such as a fund for people employed in the health care sector or a fund for public servants.

Like the health care sector, the pension sector is also very hybrid in several aspects. Firstly, the pensions are partly paid by the state (financed via individual premiums and partly premiums shared by employers and employees. Secondly, pension funds are private companies, yet strictly regulated and supervised by the Dutch government and European regulatory agencies because of the huge amount of money which they manage, the public interest they serve and the fact that the pension funds are monopolists (see next point). Finally, although it is concerns their own money and their own future, people are not only obligated to pay into a pension, but to be connected to a specific sectorial pension fund which serves their branch. Thus, citizens are not free to choose their own fund, regardless of the funds' performance.

The public values that are at stake in the pension provision system are intergenerational solidarity (during their working life those of working age pay for the older citizens' pension

through taxes), ‘carefree old days’ (individual level) and a financial sustainable system (system level).

3.3. Social housing

The third example of the social welfare provision concerns the social housing sector. Like the health care and the pension sector, the sector of social housing started with private initiatives.

At the end of the 19th century some of the wealthy citizenry in Amsterdam wanted to do something to address the housing shortage and poor living conditions of workers’ families, and in doing so they created the first social housing corporation. In addition, the ‘spiritual uplifting of the workers’ (i.e. teaching workers how to live in a healthy and cleanly way) played a role in the good work done by the wealthy few at the time.

The workers’ families could rent a small but well-maintained house at a reasonable price. This example set in Amsterdam was followed by many comparable initiatives in other cities. Social housing corporations were formed and its members could rent a social house from their corporation. Over the years corporations started renting their houses to non-members as well. Then, in the midst of the 20th century, the state began to subsidize the social housing complexes via advance payments or guarantees.

At the time of writing, social housing corporations can borrow money on the capital market with which to build their houses. They can do so against an attractive interest rate because there is still a de-facto state guarantee that offers private banks some certainty about getting back their money if anything goes wrong.

During the eighties of the 20th century the housing corporations became again more autonomous from the state and it became possible for them to execute more diverse tasks. No longer were they limited to building and renting of social houses, but now they could also contribute to a liveable neighbourhood, investment in commercial real estate, welfare provisions, building houses aimed at not only the poor but also for those better off etc. A significant portion of corporations got into trouble because this type of complex hybrid organizations proved very difficult to manage. Firstly, in practice a lot of traditional public managers were unable to manage this type of organization in an effective and efficient way.

Secondly, there were cases of financial mismanagement or fraud. And thirdly, the governance structure in this sector was underdeveloped, and both internal and external supervision was poorly developed.

At present there is a major reform going on. Local and national governments are taking (back) their responsibilities (supervision, output agreements with the housing corporations) while the corporations are obligated to once again focus on their original target groups. This last point was also forced by the European Union as the state guarantees which enabled corporations to loan funds (see above) with which they then proceeded to build houses for the rich was considered to be a forbidden form of state aid by the EU.

The public values, an issue in the social housing sector, are ‘good and affordable living conditions for the poor’ (individual level) and a ‘financial sustainability’ and ‘responsiveness to local needs’ (system level).

Much like the health care sector and the pension sector, the sector of social housing is an example of a very mixed public-private sector. Firstly, while it was originally a private initiative, it is also strictly regulated and financially supported by the state. Secondly, social housing organizations are organizations with a clear public task (building and renting houses for the poor) that became ‘public entrepreneurs’ over the last decades and have expanded their range of activities in a substantive way.

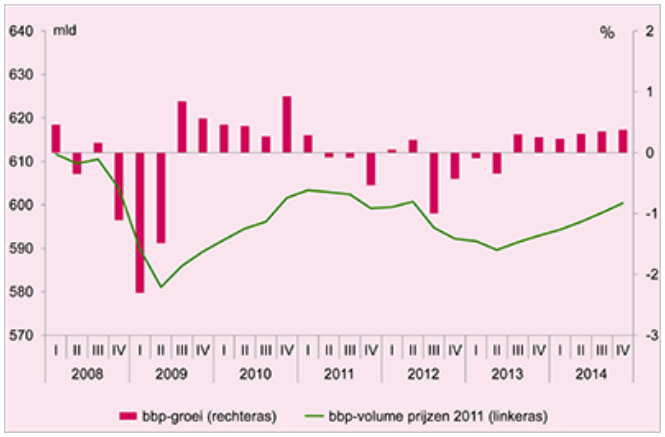
In fact, we find that the developments in all three domains have at least three things in common: Firstly, important and clear public values are at stake; secondly, it all started centuries ago with private initiatives; and thirdly, the government became more powerful through public regulation and financial support.

3.4. Systems under pressure: a need for a new balance between public and private

It is widely accepted that the existing systems are under severe pressure because of developments in economy, democracy, and governance. These developments make fundamental transitions and a new public private mix unavoidable if it they are to survive.

Firstly, the developments in the economy. The current (and enduring) negative economic growth, the increasing number of unemployed youth (<27y, 16%), the still volatile financial markets and the real-estate crisis ('price bubble' and stagnating sales) make a fundamental reform of the systems of welfare provision necessary.

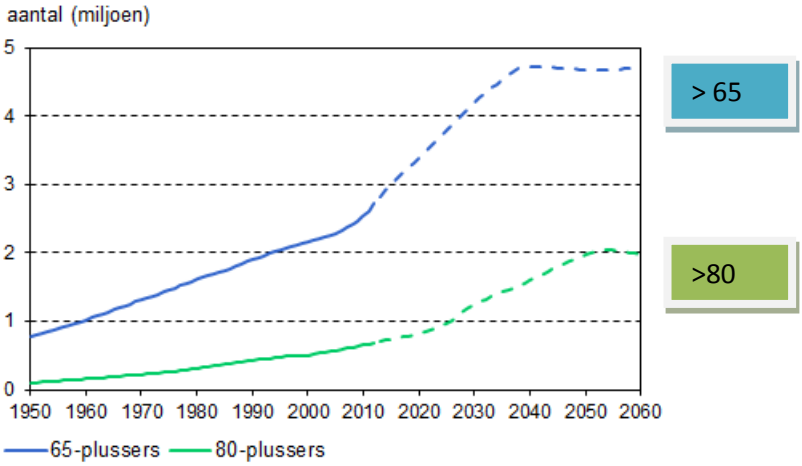
Figure 1 Gross national product The Netherlands 2008 - 2014



Source: CPB, korte termijn raming juni 2013

Secondly, development in the Demography. The expected increasing number of people older than 65 and older than 80 puts increasing pressure on the affordability of health care and pension provision. Aside from these developments at the demand side there are also several 'perverse' incentives at the supply side, which negatively impact affordability, such as: Institutional dynamics in the health care sector that lead to 'over production' (volume maximizing due to marketization), a non-optimal dissemination and high prices of new medicines and treatments (due to strict regulation and patents), and strict regulations with respect to risk profiles and coverage ratios for the pension funds.

Figure 2 Number of elderly older than 65 and 80 in the Netherlands



Source: *CBS Bevolkingsstatistiek*; *CBS Bevolkingsprognose* voor 2013-2060

Thirdly, developments in governance. Another reason why fundamental reforms are necessary is the fact that the existing governance model in the public sector doesn't seem to match the reality of overambitious (and sometimes corrupt) directors and managers and powerless (and helpless) supervisory boards. In recent years both the health care sector and the sector of social housing have been plagued by financial scandals, examples of mismanagement, cases of fraud by managers, and failing oversight bodies. All of this has led to a conviction in both politics and society that the combination of self-regulation, managerial autonomy and the two tier governance model (based on the common model in Dutch listed companies) is not the mix that will lead to an efficient, honest and effective system. This movement towards new, or adjusted governance models is ongoing. Stricter regulations, more oversight by the government and more emphasis on the capacity building of controllers, auditors and supervisors are elements that the developments in governance in all three sectors have in common.

Transition processes in the public sector – at least in the Netherlands – are almost never carefully planned, linear processes with a clear goals and time schedules. Change takes place by creating consensus between the involved stakeholders, a lot of negotiating between the government and the interest groups of the executive organizations.

Besides the initiatives that come from the government there are also many bottom up initiatives that anticipate a 'new order' in which new kinds of public services are developed

and in which new connections between housing, care and pensions, are made. This leads to new (often informal and flexible) relationships between public and private actors in terms of financing modes and shifting responsibilities and in terms of public-private partnerships.
The Netherlands Scientific Council for Government Policy recently identified a lot of those bottom up – cross over – initiatives in their report *"Wonen, zorg en pensioenen"* (Housing, care and pensions, in Dutch, WRR, 2013a and 2013b). They found that on the one hand these initiatives focus on new (niche) markets such as mixed care and housing facilities for wealthy elderly, while on the other hand, new public-private partnerships arise. There are for instance cases in which partnerships are made between social housing corporations, local governments and pension funds in order to finance, build and exploit multifunctional complexes in which housing and public services are combined. While it is too early to have a final judgement about these bottom up initiatives, they are very interesting because they create new services for people and challenge the government to be clear about their definition of 'public interest'.

4. China

As an authoritarian state, China is known for adopting a state central approach in the socio-economic sphere. In the context of strong state intervention, state-owned enterprises (SOEs) have played an important role in the development of china' economy, as they control and operate various sectors, such as oil and petrochemical industries, railway, telecommunications, and banking. For example, the world's largest bank, the Industrial and Commercial Bank of China (ICBC), is state owned, putting its 18.1 trillion yuan (US$2.9 trillion) in assets under government control. By the end of 2011, the total number of SOEs in China was 144,700, with total assets of 85.4 trillion yuan (US$13.7 trillion) and profits of 2.6 trillion yuan (US$0.42 trillion), making up 43 percent of China's total industrial and business profit in that year (Xinhua, 2012a). Additionally, SOEs account for 80 percent of the capital in China's stock market (Whittington, 2012). Despite the large number of of SOEs in China, private enterprises have thrived in the past decade, making up 28.5 percent of China's total industrial profits in 2010, up from 4.6 percent in 1998 (Xinhua, 2012b). This is the context in which PPPs started to emerge in China as the term public–private partnerships was first officially introduced by the Chinese government in 2001 (Chen, 2003). Since then, PPPs have been widely implemented in such sectors as public transit, water, gas, heating, sewage and waste disposal (De Jong et al, 2010).

However, it is not common to find PPPs in many other sectors, especially those relating to social welfare and education. In May 2010, the Chinese state council published a Circular on Encouraging and Guiding the Private Investment, which permits private investment in sectors previously only to be available for state-owned enterprises like social welfares. This circular is the first policy to explicitly encourage private companies to enter the sectors of social welfare. Afterwards, a few provincial governments also introduced similar policies to facilitate private companies to engage in social welfare provision. Therefore, only by 2010 had PPPs been set up in several pilot projects in the areas of health care, elderly care, and housing in urban China. The next sections will shed light on these issues.

4.1. Health care

Although China is a socialist country, there is not a unified health insurance guaranteeing free access to health care for every citizen, and there is a large resource allocation gap between urban and rural health systems. Urban residents, civil servants, and other government workers, such as officials, doctors, teachers, and researchers, are covered by the Government Insurance Scheme (GIS). Workers in state-owned enterprise (SOE) are covered by Labour Insurance Scheme (LIS), which is subsidized by the government through tax expenditures (Wagstaff, 2009). Since the reform and opening up, the Chinese government has not offered financial support for healthcare services to rural residents, who must pay out of pocket for healthcare. Until 2003, the New Rural Medical Cooperative Scheme (NRMCS) is launched to target at rural residents, focusing on reimbursing the costs of catastrophic-illness and inpatient-treatment. The NRMCS is regarded as a historical breakthrough concerning the central government's payment transfer since the funding comes mainly from government subsidies. It is clear to see that the public value of health care system is shifting from the unequal treatment to a universal coverage although their healthcare service is still differentiated between the rural and urban residents due to the various types of health insurance.

All the hospitals in China were public and its physicians state employees in the pre-reform period. After the Chinese economic reform during the 1980s, the privatization of hospitals has become possible, and previously government run hospitals were now run by private companies. Despite this break with pre-reform practices, public hospitals continue to play a dominant role in the Chinese health care system, for example, in 2005 private hospitals

accounted for a mere 15.9 percent of the total number of hospitals in China. Additionally, the scale of private hospitals is much smaller than their public counterparts, for example, in 2008 the average number of inpatient beds in private hospitals was 42 as compared to 228 beds in in public hospitals (Eggleston et al. 2008). With the emergence of private hospitals in cities, it has been observed that a number of experienced physicians working in public hospitals had quit their jobs and started working for private hospitals in search of better salaries. According to an empirical research by Tang and his colleagues (2013), at least 4.1% of the physicians in private hospitals were found to have been previously employed by public hospitals. With the current disparities between urban and rural China, it is rare to find private hospitals in the Chinese countryside. Additionally, the medical staff of public hospitals in these regions are relatively poorly trained, as evidenced by a 2001 survey of 781 village doctors in 9 provinces of inland China which found that 70% of these village doctors had not received education above the level of high school, and had only received, on average, 20 months of medical training (Wang et al., 2003).

In 2007, the Chinese vice Minister of Finance, Wang Jun, proposed that the cooperation between the public and private sectors should be encouraged in the field of health care (Zhang, et al, 2009). PPPs have recently been introduced in public hospital reforms, following a pilot hospital reform which took place in Beijing in 2010. There are two main reasons for adopting a PPP approach in hospital reforms: Firstly, the organizational slack and inefficiency (Stan, 2013) and the inability of public hospitals to speedily implement the needed operational reforms; and secondly, the additional funding provided through financing by private sectors which is needed to replace outdated medical equipment and refurbish hospitals since the government cannot or will not provide sufficient financial resources.

The Mentougou Hospital located in the Mentougou district of Beijing is the first case of PPPs, and is regarded as a breakthrough in Chinese hospital reform. August 2010, the Mentougou government and Phoenix Healthcare Group (PHG) started their cooperation using the model of Rehabilitate-Operate-Transfer (ROT) in the process of reforming the Mentougou Hospital. As one of the largest joint-stock medical groups in China, PHG invested 75 million yuan (US$12 million) in the reorganization of the Mentougou hospital. For the duration of the PPP contract, PHG took over the responsibility for the operation of the hospital, after which they would should transfer this responsibility over to the government. The reorganization included five measures: Firstly, a hospital board should be formed, and the dean of the hospital should

be selected by the members of this council instead of being appointed by the government; secondly, high level staff members should be hired based on their merits, and the promotion system should be formalized; thirdly, the funding mechanism should be changed to include both private and public investment; fourthly, besides the Mentougou government and the PHG, a third party should be invited for the task of assessment and evaluation; fifthly, the redistribution system should be reconstructed, and the balance of payments made up from three parts which are enterprise funds, welfare funds, and performance funds (Zhang, 2012). This ROT model as used in the case of the Mentougou hospital is defined as the "third path" for public hospital reform in China, and should make a good example for other hospitals' reform (Li, 2012). It is worth noting that the reform should be on the basis of the following eight principles: 1. The function of the hospital is to offer social services and welfare; 2. The status of a hospital remains that of a non-profit public institution; 3. The hospital remains a state-owned enterprise; 4. Capital assets are owned by the state; 5. The hospital remains under the supervision of the government; 6. The status of the staff members remains that of state employee; 7. Existing associations of the hospital should be kept in place, such as the communist party association or women's federations association; and 8. The name of the hospital cannot be changed (Liu, 2012).

After the reorganization of the Mentougou hospital the following results were reported: 10,000 square meters of hospital facilities were renovated; the number of inpatient beds increased from 252 to 502; the number of physicians holding a master degree or higher increased from 30 to 72, while another 10 obtained a doctoral degree; inpatient expenditures dropped by 12.3% between 2011 and 2010 while the number of inpatients increased by 58.48% over the same period; and patient satisfaction as measured by the third party's evaluation raised from 6.82 to 8.41 (Jie, 2013). Despite of this remarkable outcome, experts argue that similar outcomes may not be readily replicated, as the diverseness of administrative agencies remains one of the main barriers to better practices through PPPs. In other words, there is no a single governmental department with which to engage in the PPP, since for example a hospital might be affiliated to a university, a military base, or a ministry and administrated and supervised by these respective institutions. Likewise, the relationship between the hospital and its affiliate institution might be one of "father" and "son", reducing the willingness to reform (Li, 2012). As regulations and systems vary from hospital to hospital, one cannot offer a clear standard structure, and thus expectations, to the private partners of PPPs (Liu, 2012).

4.2. Elderly care

By 2010 the number of Chinese citizens aged 60 or over had reached 178 million, accounting for 13% of the total population. In China elderly care has always been regarded as an intra-family duty, and it is socially accepted that the son and the daughter-in-law should take care of the parents. However, in part due to the one-child policy introduced in 1980, the pressure of caring for one's parents has become too high for many Chinese, and in recent years there have been increasing calls for changing the responsibility for the elderly from families' moral duty to the community and the state.

Regardless, the Chinese state does not currently have or allocate sufficient financial capacity to provide formal and regulated care to the huge and growing number of elderly. Taking the example of old age care institutes, there were 41,800 old age care institutes across China by the end of 2012, mainly state funded. The total number of beds adds up to 3.65 million, which means that institutions are able to provide care for 2% of the elderly, much lower than the Dutch case (6%). Furthermore these facilities are generally poorly equipped, and less than 60% of these institutes were found to have clinical treatment rooms while 22.3% had no separate medical rooms. In the rural, under-developed western regions, more than 60% of these institutes were found to have no professional nursing staff, while more than 50% had no doctors (MOC, 2009).

It is clear that the Chinese government face a challenge to provide formal elderly care nationwide in terms of the financial constrain. In this context, as in the case of the Mentougou hospital, PPPs can fill a need in the elderly care system as the introduction of private funding into old age care institutions, mainly in urban China, would reduce the state's financial burden. This would allow for the provision of care beyond that which a purely public system may provide. At the 6th China Aged Industry and Aged Real Estate Forum in 2013, JIA Kang, the dean of the financial research institute of the Ministry of Finance, points out that PPPs should become a widespread mechanism in the elderly care in China. On July 1st 2013, the Chinese government has introduced regulations for the setting up of old age care institutes. Since it is a recent practice, there is little research and related data on PPPs in elderly care. Based on the few existing cases, it would seem that the common practice is for the state to offer preferential policies to private partners involved with projects concerning old age care

institutes, such as cheap land acquisitions or tax reductions. In particular, the government can renovate abandoned buildings such as old schools and factories into suitable location of old age care institutes (Jia, 2013). The model of Build-Operate-Transfer (BOT) is adopted for these particular projects, which involves the following steps: First, the private partners invest money building the old age care institute; then, the private partner can operate it for 20 to 30 years; after this time, the rights to operate the facility are transferred back to the government. Typically, three companies make up the private partners involved in these PPPs: an investment company (to finance the project), an elderly care and service institute (to operate the institution), and a construction company (to construct the building). The public partner, the government, acts as a supervisor and assessor during the whole process.

Individuals' value on elderly care provision is one of main concerns about this innovative system. Chinese citizens have had Confucian values instilled in them throughout their lives, which state that adults and children must live with, and take care of, the elderly, the ideal being "*sisitongtang*", or four generations living under a single roof. Because of these strong shared norms and values, there will be a long way to go for before ordinary Chinese, especially older generations, will change their feelings about elderly care and accept old age care institutes as a novel, alternative, option.

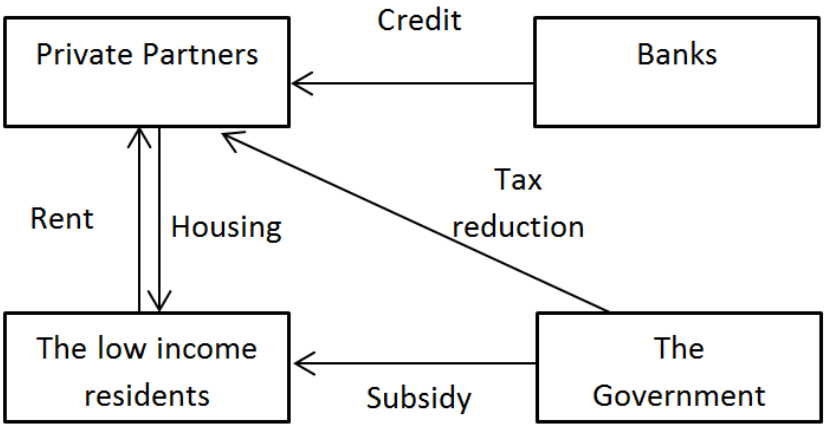
4.3. Social rental Housing

Housing policy in urban China has gone through three phases: 1. Welfare-oriented phrase, before 1998, housing was provided for the wellbeing of urban residents who could live in low-rent public housing which was distributed by the work unit (*danwei*); 2. Privatization phase, after 1998, the public housing system was discontinued, and urban residents had to purchase a house in the open market. 3. Social housing pledge phase, in 2010 social housing for the urban poor had been reintroduced, in order to address the high and rising prices of the private housing in urban China. It saw the introduction of "the Circular on Speeding up the Social Rental Housing" by the Ministries of Housing and Urban-Rural Development, Finance, Land and Resources, the National Development and Reform Commission, People's Bank of China, State Administration of Taxation, and China Banking Regulatory Commission. In 2011, Premier Wen Jiabao pledged that over the next 4 years 36 million affordable-housing units would be constructed for urban Chinese with low incomes. Of these housing units, social housing flats make up the bulk of construction projects (Zang, 2012).

Due the state's limited financial capacity, private investment in these housing programmes is encouraged. For example, in 2012 the government invested 412.9 billion yuan (US$67.4 billion) in affordable housing programmes, while another 466.8 billion yuan (US$76.2 billion) is invested by other financial sources such as private investment. In order to ensure the sufficiency of funding for affordable-housing construction, in recent years this public private mix has become an optimal model.

PPPs in social housing projects generally consist of several private partners' operating under the supervision of the Chinese government. Besides these private companies and the government, other key players in social housing development are banks and the low income residents (as shown in figure 3). Firstly, tax reduction is one of the main governmental tools which with to promote private companies' engagement in social housing. For example, land use tax is frequently waived during the construction period, while similarly the business tax is waived during the operation stage. Secondly, banks provide credit to the private partners which pay for the construction. Thirdly, the private partners rent the housing to low income groups and receive rent from the residents, at 80 percent of the market renting price. Fourthly, the government subsides low income groups living in the social rental housings by means of direct cash transfers, which varies depending on the level of residents' income (Zheng et al., 2012). According to the "Circular on Social Rental Housing in Beijing", introduced in 2012, there are six levels of subsidy, which accounts for 95%, 90%, 70%, 50%, 25%, and 10% of the rent, respectively. This type of PPP similarly exists in the Netherlands, where the private partners are called social corporate companies, which are non-profit organizations (NPOs), and the government takes on the role of guarantor instead of offering tax credits to NPOs.

Figure 3 Different players in the PPPs' practice of the social rental housing



In general, BOT is the preferred model for these social housing projects. Taking the example of one such project in Beijing, the private partners build the new social housing units, 47 square meters for a one room apartment and 68 square meters for a two room apartment. Construction takes two years, after which the operation period for the private companies lasts 18 years, which means that 20 years after the project was began the operating rights of these social housing units should be transferred to the government (ibid).

As the social housing is only just emerging in China, and subsequently private sector involvement in these projects is also novel, there are a number of concerns regarding public values and private values of different actors: Firstly, private partners might be put off by the fact that social housing presents a long term return project with a huge initial investment in the construction period; Secondly, the fact that operating rights can only be transferred to the government after around 20 years presents a risk to the private partners, as the project may not be implemented as planned due to changes in government administrations during the various terms of office during this time; Thirdly, a percentage of social housing residents can be expected to be in arrears on their rent, and whatever difficulties that this entails, as according to a survey by the National Audit Office between 2007 and 2009 the total amount of arrears in rent added up to 2.38 million yuan (US$390,000) across 12 cities including Tianjin, Shenyang, and Chongqing.

4.4. Systems under pressure

While the practice of PPPs in the area of social welfare is new in China, based on early experiences five dimensions of adjustments can already be identified, which need to be taken into consideration in the Chinese context: The rural-urban gap, regional imbalances, legal base, administrative informality, and citizens' awareness of welfare claiming.

First of all, PPPs in the area of social welfare are concentrated in the urbanized regions of China. It is a grim reality that there exists a dual system, in which the countryside lags behind on all fronts, and the use of PPPs is no exception. On January 9, 1958, the National People's Congress promulgated the Regulation on Household (hukou) Registration of the People's Republic of China. Since then, Chinese citizens has been institutionally divided into two groups by means of an "invisible wall". Citizens either have the status of non-agricultural hukou (i.e. urban Chinese) or the status of agricultural hukou (i.e. rural Chinese) (Chan, 1994). Citizens' access to state-subsidized welfare differs between these two groups, with urban Chinese receiving the lion's share of social and economic investments (Wang, 2005: 67). Due to the practice of PPPs being still rare in China, and the geographical disparity of the PPPs in existence to date, citizens with agriculture hukou do not benefit from PPPs, even though this group is in greatest need of social welfare due to their low income compared to urban Chinese. To illustrate, in 2008 the net income of rural households per capita was 4760.6 yuan (US$777.7) as compared to 15780.8 yuan (US$2,578.1) for their urban countrymen (NRS, 2009: 16). In fact, two-thirds of households in rural areas are regarded to be part of the self-subsistence peasant economy. In order to address the growing inequality in China and increase social welfare in rural areas, it is vital that the practice of the PPPs be spread beyond large metropolises.

Secondly, besides a general gap between rural and urban China, there exist significant socioeconomic imbalances between different regions. In fact, within China we can distinguish between three different "worlds": the high-income coastal region (the first world), the middle-income central region (the second world), and the low-income western region (the third world) (Liu and Rao, 2006:81). To illustrate, the GDP per capita in "first-world" Shanghai was the highest in all of China at 77,205 yuan (US$ 12,612.9) in 2009 while that of Guizhou, located in western China, was 9,214 yuan (US$1,505.3). Even accounting for the difference in cost of living, the imbalance is staggering. This also goes a long way in explaining why the

practice of PPPs is so much more wide-spread in coastal regions as compared to inland China: a large percentage of private companies are located in these coastal regions.

Thirdly, there is no law regarding the practice of PPPs, which causes the private company might burden higher risk since it is common that the state owned enterprise dominates the partnerships, leaving the private partner little bargaining power. On the other land, private enterprises pursue the profit maximization due to their self-interest, which may harm the social welfare claimants, for example, uncertain quality of housing units or even dangerous living conditions. Therefore, it is urgent to introduce a law to regulate the PPPs in China.

Fourthly, due to the lack of law, it is quite common to find PPPs are implemented in an informal manner, i.e. not based on the formal institutions, which are referred to as "administrative informality" in this article. For example, in some cases the selection of the private partner would not be the result of a competitive tender, but rather their "relationship" (guanxi) with government officials. The availability of guanxi might lead to the rent seeking despite the existence of formal public procurement systems. Similarly, informality is also shown to exist throughout the rest of the PPP process as any number of agreements made between the private and public partners are disregarded. For instance, there might not have been any process evaluation during and after the construction of a social housing as formally required.

Lastly, citizens' awareness of welfare claiming is poor, especially that of rural residents. On the one hand, this is because for decades they have been excluded from the welfare system and as such their social values and beliefs have been shaped by the fact that they have had to rely on themselves or those in their social networks (acquaintances, friends and family) and have long since given up on seeking assistance, or claiming benefits, from the government (Xu, et al, 2011; Wang, 2000). On the other hand, similarly, due to decades of state propaganda many still regard the government as their father and themselves as the government's sons and daughters and subsequently tend to obey top-down orders instead of taking the initiative and making claims or demands. Indeed, most if not all have never regarded citizens' rights as the product of a contract between the individual and the state on an equal basis, the very notion so outlandish that it does not occur to them (Woodman, 2011; Li and Wu, 1999: 165). Thus, in order to make PPPs in social welfare benefit more citizens, it is important to improve citizens' sense of welfare claiming, and changes the traditional value

of self-relief, so that they may demand the social welfare improvements PPPs could potentially enable.

5. Conclusion and discussion

Both Chinese and Dutch governments emphasise the ideology of welfare states. Whereas the Dutch government would like to maintain the Netherlands as a welfare state despite of the recession, the Chinese government is shifting its developmental approach from one which prioritizes economic growth to one which prioritizes a harmonious society. In order to achieve the latter, citizens' social welfare must be promoted, which in term means that China is on the way to becoming a welfare state.

The Dutch welfare state can be seen as a result of process of 'deliberation', 'negotiation' and 'consensus building' between government, trade unions, employers organizations and other stakeholders during decades. There is an ongoing interplay between the government (rules, policy goals, safeguarding public interests) and societal organizations (private initiative, private interests, bottom up initiatives). Stability by change requires that the Netherlands stay in this mixed public – private tradition. At system level Health care, housing and pension provision have, starting a long time ago from private initiative, a long tradition of shared public and private responsibilities. At this level the Public-private mix is part of Dutch history. In the last decade the public private mix entered also the executive organizations: they became 'hybrids' or 'public entrepreneurs'. This has led to a number of governance problems as we mentioned above. At this level the public private mix didn't seem to be a huge success. Public private partnerships in the sense of BOT, BOOT, DBFM etc. contracts are still uncommon in the domains of housing, health care and pension provision in the Netherlands, although their numbers are increasing as a result of the need of private investment capital. But what about the public-private mix on the level of values? Systems of social welfare provision in health care, social housing and pension provision still rely heavily on values such as equality and solidarity (between generations, between healthy and ill and between rich and poor). However, the value of solidarity is under pressure, while the value of "everybody is responsible for his/her own life, income, family and neighbourhood" is becoming relatively more important. Conversely, in China, the value is gradually shifting from individuals' responsibility to the need of the state's formal provision, with an emphasis

on narrowing the gap between the urban and rural residents and encouraging citizens' participations.

As the public-private mix is just emerging in the social welfare provision in China, several aspects should be taken into consideration as the Chinese government adopts the concept of the public-private mix from the Netherlands, due to the different socio-economic context. Firstly, the Dutch tradition is one in which an active government and an active private sector (civil society and private companies) are combined. There is a continuous interaction (both informal and institutionalized) between (elites from) the state, civil society and market organizations. Therefore, the lack of, for example, institutionalized grassroots /community based organizations in China may present an obstacle to the change of elderly care from a family based to a community based system. Secondly, the systems of Dutch welfare provision as discussed in the previous sections are, though executed by private companies, highly regulated by the government. A weak legal framework or poor state of administration as commonly found in China will lead to informal practices that lead to corruption and arbitrariness (Jong et al, 2010). Thirdly, while due to China's top-down organizational approach, with its authoritarian command structure, the state can mobilize numerous needed resources for a project in a short time period, the Netherlands adopts a bottom-up approach, which favours negotiations and puts more emphasis on processes, in which projects take longer to plan and execute. Lastly, there are the cultural differences between both countries. Chinese citizens' values and beliefs are deeply influenced by the traditional culture in which they were brought up. As Chinese culture is deeply ingrained in Confucianism, Taoism and Buddhism, which emphasise that one should serve those in authority, and not vice-versa, this has led to Chinese citizens becoming self-reliant and hesitant to seek help from the government (Wang, 2001).

6. Further research

Existing systems of social welfare provision are under pressure and have to be reformed in both countries. A stable transition and legitimate process requires the support of the people, which in turn requires some kind of cooperation between government, civil society and private companies. With respect to the cooperation between government en private companies, the emphasis often lies on the kind of public private partnerships between

government and private companies that are commonly used in transport and infrastructure (the long term BOT, BOOT, DBFM- contracts).

In our opinion this is too limited a way to look at partnerships. First, the concept of public-private cooperation should also include cooperation between the state and civil society organizations. The Dutch case shows that this can be quite important for long term stability and support form society. Second, the Dutch case shows that there are other kinds of public private mixes to consider, which could be of interest when rethinking systems of social welfare provision, e.g. public regulation in combination with private execution; private initiative in combination with state guarantees; public organizations in combination with management principles from the private sector; and public-private financial risk sharing or co-financing. Therefore, it is important to explore which public-private mixes/profiles and what kind of public-private partnerships are most appropriate in dynamic institutional contexts in which needs, demands value systems are rapidly changing and in which flexible and adaptive systems are needed? Additionally, we believe that our understanding of these partnerships might improve when researchers, advisors and/or governments take the following four questions into consideration during the "change" process, First, should the arrangement be collective, individual or mixed?; Second, should insurance be compulsory or the ones 'personal risk and responsibility'?; Third, should the PPP rely on formal, institutionalized provisions or informal/voluntarily arrangements? And fourth, should we search for and consider a new public-private value mix? These questions are therefore also interesting to consider for a research agenda.

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Appendix
The Netherlands - Suggestions for further reading

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