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Public Housing in the Post-Socialist States of Central and Eastern Europe: Decline and an Open Future

Introduction

After 1990, the new democratic governments in post-socialist states wanted to re-introduce private property and establish a market economy. Governments in most countries in Central and Eastern Europe shared the view that large parts of existing public rental housing should be privatized; rent regulation rules should be abolished or replaced with a new market-friendly system; and new social housing strategies should help people who were unable to afford housing available in the free market.

However, in most countries the transfer of public housing into private hands was put into practice in a very specific way: it ultimately took the form of a massive give-away sale to sitting tenants who obtained housing wealth almost or wholly free of charge. This policy was similar to the right-to-buy policy of selling social housing to sitting tenants in the UK during the 1980s where public housing tenants were given the option to buy their dwellings under advantageous price conditions by the Conservative government led by Margaret Thatcher. Other forms of privatization, such as those that would preserve rental housing through the sale of public flats to private investors, not-for-profit private housing associations, housing cooperatives, or the sale of public flats to sitting tenants at market prices were barely discussed.

With give-away privatization, public housing almost disappeared in a short period in most post-socialist states, although there were some exceptions in the Czech Republic, Poland and Russia. As a result, homeownership rates increased substantially to levels often exceeding 90% of total housing stock in many post-socialist countries.

Similarly, attempts to establish new social housing policies for those who could not afford housing under free market conditions have been implemented in very specific ways. Notwithstanding the large differences in measures adopted, almost all attempts at reinventing social housing during the economic transformation process proved to be both unsustainable in the long-term and often ended up in further enhancing homeownership tenure in post-socialist housing systems.

In our research of social and public housing in transition countries, we used data from an international comparative survey of 12 post-socialist states directed by Institute of Sociology, Czech Academy of Sciences jointly with the Metropolitan Research Institute, Budapest, Hungary. The survey was conducted during 2010-2011, and its aim was to deliver critical evaluations of developments in selected countries' social/public housing sectors over the past two decades. The coordinators established the network of 18 local housing experts in 12 post-socialist countries. In the semi-standard questionnaire surveys, the country experts provided the following data: housing tenure structure, share of social/public housing on total housing stock, estimate of new social/public housing output (1995-2010), its trend, prospect and structure of its funding, and many details on social/public housing allocation rules, rent regulation and country housing allowances. For the purposes of comparative evaluation, we divided the estimated amount of new social/public housing output built after 1995 by the total number of permanently occupied dwellings in each country (around 2001) and ranked countries into four categories: countries with 'marginal output' (share in interval 0.0% - 0.5%), 'low output' (0.5% - 0.7%), 'middle output' (0.7% - 1.0%) and 'substantial output' (share above 1.0%). The sustainability refers to the length of time



a policy was implemented, and if still operational an estimate of its use in the future through reference to recent government plans.

2. Public housing under socialism

In the mainstream housing policy discourse, public housing is often seen to be a part of social housing. However, the automatic inclusion of public housing in the category of social housing, evident for example in international housing statistics, ignores significant differences in the meaning that public housing has acquired in different cultural contexts. This difference is especially relevant when analysing the post-socialist housing transformation because public housing had very specific features during socialism. If these features are ignored, there is the danger that key characteristics of the transition process experienced by post-socialist states after 1990 will be misunderstood.

Before 1990, most of the economy in socialist states was in state ownership and was subject to central planning. Despite some differences (especially regarding the re-emergence of a free market logic in some parts of the economies in the former Yugoslavia, Bulgaria and Hungary), in the field of housing, this meant that state intervention was directed toward decommodifying housing through policies such as extensive housing subsidies, property expropriations and rent/price regulations. These interventions created a large public (semi-public) rental housing segment where rents were kept at extremely low levels.

1 Example of public housing built during 1980s in Prague
Source: own archive



No definition of 'social housing' existed under socialism, although there were some exceptions such as the former Yugoslavia. Nor can this term be simply applied to the mass public housing stock created during socialism. The key principle of socialist housing policy was to allot flats for free 'according to people's needs.' Need was defined technically as the right to occupy a specified amount of housing space. Defining needs and standards was basically the task of social engineers, planners and architects.

In societies characterised by wage equality, the allocation of public housing on the basis of income or social need was officially unnecessary. The housing market relations were suppressed, so unlike social housing in Western Europe and elsewhere, public housing was not intended to serve primarily those who could not afford to secure accommodation in the market. Similarly, there was often no income targeted social policy whatsoever: the term 'social policy' in many socialist countries disappeared from official use during the 1950s, as it implied the existence of social problems that had officially been solved. Public housing became a tool of the regime to distribute socialist 'privileges'. People who obtained public housing the fastest and/or with the highest implicit value were often members of the Communist Party, people loyal to the socialist regime, or people who effectively used their clientelist networks or employed corrupt means to acquire public housing. The official egalitarianism which incorporated the ideology of 'public housing for all' led to artificial housing scarcity; and this in turn led to a politically based distribution of housing 'privileges'.

Besides specific housing allocation practices, the second distinct feature of public housing under socialism was that tenants who were allotted dwellings by the state/municipality or public enterprise obtained unlimited occupancy rights in the form of a so-called 'deed' to the flat. In many countries officials did not speak about 'renting', but about the 'personal use' of a flat. 'Personal use' became often an institution separate from that of rental tenure – it could be inherited or transferred to relatives, or exchanged with some other holders of user rights, or illegally marketed – all this was later called 'quasi-homeownership'.

3. Rapid decline of public housing after 1990

As mentioned above, most post-socialist governments used a rapid give-away privatization of public housing to sitting tenants as the major means of re-introducing private property. One of the main consequences of this form of privatization was that in the space of a few years the housing systems of Central and Eastern Europe became dominated by homeownership tenure. The motivation underpinning give-away privatization was to establish an effective housing market. However, achieving this policy goal did not require the give-away sale of flats exclusively to sitting tenants. Consequently, there must have been other implicit reasons involved. Here two key implicit reasons will be highlighted.

The first reason was that politicians in post-socialist states were reluctant to make any real housing reforms because of the social and political unrest this would produce. Consequently, political leaders used housing policy to offset the declining living conditions of households as a result of other economic reforms. In the situation of high uncertainty, post-communist governments used housing as a 'shock absorber' to attenuate the social disruption caused by economic transformation and hence make the transition process politically feasible. The give-away privatisation was de facto a



huge ad hoc economic subsidy to sitting tenants: a one-time policy that could never be repeated because of its enormous economic cost.

The second reason stems from the fact that under socialism public housing was neither defined nor perceived as being social housing. Socialist public housing was effectively universal in nature. For this reason, the real tenure status of public tenants under socialism was much like that of owner-occupiers in market economies. The easiest way to use housing as a 'shock absorber' and hence satisfy the political goal of minimising mass social unrest was to replace quasi-homeownership with legal homeownership: this formal change only confirmed the existing status of public housing.

Consequently, it is not appropriate to label the give-away privatization of public housing in post-socialist states as a reform. Give away privatization reinforced existing inequalities evident in public housing allocations under socialism, and formalised the already existing quasi-homeownership entitlements of public tenants. By taking the de facto property rights of sitting tenants into account under socialism and thereafter, give-away privatization is the most salient example of path dependence in post-socialist housing policies.

4. New social/public housing policies and measures after 1995

In all post-socialist countries, public housing and rental housing more generally experienced an unprecedented large and rapid decline. This radical restructuring of housing systems could have been seen as an opportunity to formulate and implement new social housing strategies that would reflect market logic; and hence converge toward housing models evident in Western Europe. The proponents of mass privatization thought that the sale of public housing might 'unwind the socialist housing legacy' and enable the new liberal democratic governments to introduce more effective and sustainable strategies. The aim of this section is to show if this is really what happened using the data from the international comparative survey conducted in 12 post-socialist states. The sample of countries examined includes Bosnia and Herzegovina, Croatia, the Czech Republic, Estonia, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine.

Table 1 summarizes some of the data used in this study to evaluate post-1995 social housing policies. This evidence shows that the decline in social/public housing, which started with the give-away privatization in the early 1990s, has to date not been reversed, and new social/public housing programmes have proved to be weak and unsustainable in the long term.

Although the municipalities emerged as the main social housing landlords in the sample of 12 socialist societies examined, they did not receive sufficient public funds to perform this new role effectively. Moreover, in most countries old rental contracts are still bound by strict rent regulation regimes (Romania, Russia, Ukraine, Slovakia, Slovenia, Bosnia-Herzegovina, Croatia, and Serbia) and this may prevent municipalities from formulating and implementing their own social housing policies. In sum, municipalities after the fall of socialism became the main heir of public rental housing stock. However, their rights to dispose of this heritage were restricted by the state: either by enactment of right-to-buy legislation and/or by the preservation of binding rent controls.



Not-for-profit housing is a new phenomenon, having only appeared since the collapse of socialism. However, there are only two post-socialist countries in our sample where not-for-profit housing now makes up a visible share of the housing stock: Poland and Slovenia where it constitutes 2% of the housing stock in both cases. Moreover, the growth of this sector has stagnated in both countries. Slovenia has recently turned away from supply-side subsidies towards housing allowances, and Poland has ceased supporting not-for-profit housing development. In Poland, it is expected that not-for-profit dwellings operated by housing associations called TBS (Towarzystwa Budownictwa Społecznego) will be offered for sale to tenants; and thus this housing sector is predicted to decline sharply.

The actual performance of new social/public housing programmes, especially in terms of their sustainability, has been poor. Column 8 of Table 1 shows that there are three countries, i.e. Czech Republic, Slovakia, and Slovenia, where new social/public

T1 Characteristics of public/social housing on sample post-socialist states

Country	P1	P2	Central rent control for existing SH/PH	Central rent control for new SH/PH	Central (official) definition of SH	Central allocation rules for SH/PH	New SH/PH output (1995-2010)	Future trend for SH/PH	Central (state) funding of SH/PH	Local (municipal) funding of SH/PH
BA	2.0	<0.1	Yes, AVP	No	No	No	Marginal	Stable	Yes	No
HR	2.0	-	Yes, AVP	No	No	No	Marginal	Stable, slight increase	Yes	Yes, in the capital city mainly
CZ	10.0	-	Yes, ST, since 2012 SG	Yes, CP	No	Yes, but till 2002 no targeting	Substantial	Sharp decrease	Yes	No
EE	4.0	-	No	No	No	No	Low	Stable, slight increase	No	Yes, in the capital city mainly
HU	4.0	-	No	Yes, CP	No	No	Marginal	Decrease	Yes	No
PL	11.0	2.0	Yes, SG	Yes, CP	Yes, since 1995	Yes, but TBS programme is finishing	Middle	Sharp decrease	Yes	No
RO	2.0	-	Yes, IR	Yes, IR	Yes, since 1996	General list of target groups, young people	Low	Variable	Yes	No
RU	16.0	0.2	Yes, ST	Yes, ST	Yes, since 2005	Yes, since 2005 income limits, till 2005 all	Marginal	Stable, slight increase	Yes	Yes, in the capital city mainly
RS	0.5	-	Yes, ST	Yes, ST	Yes, since 2009	General list of target groups	Middle	Sharp decrease	Yes	Yes, in the capital city mainly
SK	3.0	-	Yes, ST	Yes, CP	No	Yes, income limits (but high)	Substantial	Stable, slight increase	Yes	No
SI	4.0	2.0	Yes, AVP	Yes, AVP	Yes, since 1991	General statement	Substantial	Sharp decrease	Yes	Yes, for elderly
UA	5.0	-	Yes, ST	Yes, ST	Yes, since 2006	Yes, income limits, but in practice universal waiting lists	Marginal	Variable	Yes	No

Source: semi-standard questionnaire survey among 18 local housing experts, summarized by authors.

Note: P1 refers to public / not-for profit housing as a percentage of total housing stock; and P2 indicates not-for profit housing as a percentage of total housing stock]

Legend for countries: Bosnia and Herzegovina (BA), Croatia (HR), Czech Republic (CR), Estonia (EE), Hungary (HU), Poland (PL), Romania (RO), Russia (RU), Serbia (RS), Slovakia (SK), Slovenia (SI), and Ukraine (UA)

Legend for policies: Appraised Value Principle (AVP), Cost Principle (CP), Second Generation (SG), Social Housing (SH), Strict Tariffs (ST), Income Related (IR), a Polish not-for-profit housing association (TBS), Public Housing (PH)



housing output built between 1995 and 2010 can be considered substantial, that is when related to the size of the country's housing stock and the situation in other countries in the sample. According to estimates, 85,000 - 90,000 public dwellings were built in the Czech Republic between 1995 and 2010; 24,000 public dwellings in Slovakia and 23,000 public and not-for-profit dwellings in Slovenia. When divided by the total number of permanently occupied dwellings around 2001 the share is especially high for Slovenia (3.5%) and the Czech Republic (2.1%).

However, in the Czech Republic most new public housing output constructed between 1995 and 2010 had de facto quasi-homeownership status because the original state support for municipal housing was converted into support for co-operative (co-op) housing; and, as co-op members, had relatively extensive disposal rights similar to the rights of homeowners. Moreover, the programme ended up with the state subsidizing also the construction of luxurious dwellings, and secondary homes, or flats acquired purely for speculation. The allocation of housing was not means tested and, in fact, it was mostly high and middle-income households that participated in the programme. When the programme was amended in response to its deficiencies (the co-op form was banned and income targeting was introduced), the scale of output decreased substantially and in recent years has become of marginal significance. In

2 Example of public housing built during 1980s in Prague
Source: own archive



Slovenia, the relatively generous social housing programmes of the 1990s were recently scrapped and replaced by a new housing allowance scheme, which is expected to be better targeted and will make more efficient use of scarce public resources.

A medium level of social/public housing output after 1995 in relation to the size of the total housing stock can also be observed in Serbia and Poland. However, the Serbian programme ended up applying a right-to-buy policy for tenants; and this social housing became part of the owner-occupied housing stock. Poland is currently the only post-socialist country with a substantial not-for-profit social housing scheme. However, subsidization of new social housing output recently ceased, and flats built within the TBS programme will be probably privatized in favour of sitting tenants. Slovakia is the only exception in our sample because the construction of new social housing there can be considered substantial; and the trend appears to be stable or increasing slightly.

Public investment in new social/public housing construction faced a dilemma in the 1990s: spend public money to build housing with low rent targeting those in real need, or construct a larger volume of housing with higher rents (or prices) that would not be targeted specifically to those in greatest need. When faced with choice, most governments opted for the latter option. There are basically four explanations for this decision. First, the targeted option involved greater political and financial risks. Second, the number of newly built dwellings under targeted option was unlikely to meet public expectations that were accustomed to relatively high levels of housing construction witnessed in the past. Third, another option offered greater benefits to the middle classes: a group that was critically important for driving the economic transformation process. Fourth, non-targeted high volume housing construction was much closer to the socialist model – a system that the public both understood and trusted.

Although the give-away privatization of public housing was not a real reform measure and helped to prolong the socialist ideology in housing policies beyond 1990, it had serious and irrevocable consequences on citizens' house buying behaviour. Homeownership became the social norm and rental accommodation became socially undesirable, especially for long-term housing. The behavioural shift toward mass homeownership combined with institutional change in post-socialist states help explain the low sustainability of new social/public housing policies introduced after 1995. The main factor leading to the emergence of a homogeneous homeownership housing system may be termed a privatization trap; and the details of the mechanism leading to this undesirable outcome are summarised in the following five points:

- Once politicians started to privatize public housing originally allocated with no real needs assessment (and, therefore, occupied by rich and influential people) for give-away prices they were politically unable to limit this process because of raised expectations;
- As public housing privatization was politically difficult to restrict, an unintended consequence of early privatization was the establishment of a social norm where all public tenants expected to buy their dwellings for a give-away price;
- As this norm acquired legitimacy in the new market environment, any new social housing programme is challenged by it and as a result new social flats became often the subject of give-away sales to tenants;



- As the housing system was based primarily on homeownership tenure and state interventions are too weak to change this situation, irreversible residualization of social/public housing takes place;
- Divergence in early transformation policies resulted (surprisingly) in a convergence of all post-socialist housing systems due to this 'privatization trap': a residualization of social/public housing and rental housing in general.

Another important feature of the economic reforms, in addition to privatization, was the decentralization of power: that is the dismantling central planning and the weakening of the state power in favour of giving more power to local governments. However, decentralization reform in the field of housing proved to be more of an obstacle than an impetus to the creation of sustainable social housing policies. This unintended consequence could be labelled the paradox of decentralization – a term with origins in behavioural economics. If decision making is decentralized to a large number of agents that are financially and politically weak, these decentralised decision makers will have a strong risk averse to shirk any responsibilities that are seen to be financially costly or politically unpopular. In practice, municipal authorities are not likely to gain much credit for helping the poor – a minority of voters who typically have substantially lower levels of political participation. In addition, an initially effective social housing policy could be undone through the in-migration of poor claimants from other municipalities who would rapidly overwhelm the resources of the active small local authority.

Conclusion

With the exception of Slovakia, in countries with substantial new social/public housing output between 1995 and 2010 the social housing policies proved to be unsustainable in the long term. Countries where new social/public housing output expanded between 1995 and 2010 are currently experiencing a reversal of fortune. Consequently, the future for social housing looks bleak with the possible exception of Slovakia. This leads us the final question: what is the future for social housing in post-socialist states? The recent discourse on forms of social housing in post-socialist countries is different from the discourse in post-war western democracies. Social housing is no longer perceived as one specific form of subsidy, nor is it perceived as a strictly supply-side subsidy instrument. Instead of massive state interventions into the housing market via long-term capital subsidisation of public housing, social housing takes the form of central and local government programmes aimed at different target groups. Features of social housing such as decentralisation, flexibility, and social integration are stressed. A decentralised and flexible approach is likely to be the key characteristic of new social/public housing policies adopted in Central and Eastern Europe.

Consequently, it is not very likely that there will be an importation of western social housing ideas and practices that emerged during the post-war era. Neither can we expect any large-scale and fiscally expensive programmes that would create a substantial stock of social/public housing. Instead, there is likely to be a range of different state programmes targeting different types of households. The variation currently evident in municipal authorities' approaches to social housing is likely to increase. In practice, this multi-channelled approach will be reflected in such things such as small and targeted public projects, providing incentives for private developers, and employ-



ing different forms of cooperation with private capital (Public Private Partnerships). In addition, there are likely to be innovative models attempting to use private renting for social purposes. These novel strategies reflect more the institutional context of post-socialist societies than historical models of social housing.

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