

# POLICY, PLANNING, AND PEOPLE

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Promoting Justice in Urban Development

Edited by

Naomi Carmon and Susan S. Fainstein

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**PENN**

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## Chapter 4

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# From Socialism to Capitalism: The Social Outcomes of the Restructuring of Cities

Iván Tosics

The past twenty years or so brought the largest and quickest changes in the history of the Eastern-Central European cities. Within this short time, three periods can be distinguished, each with a different economic basis: the socialist system; the transitory, unregulated free market system; and the recent attempts at regulated capitalism.

This chapter explores the changes in the urban development processes of the East-Central European cities (represented mainly through a close examination of Budapest) across the three periods, with special regard to the social inequality aspects of development.

After an introduction of the conceptual framework, the discussion is structured around the three main periods. I describe the challenges, macro-level processes, and main restructuring policies; the socio-spatial outcomes, including changes in social inequalities and segregation patterns; and the local planning policies, illustrated by case studies from Budapest—the social aims of particular policies and the extent to which these aims can realistically be achieved. The chapter closes with a critical evaluation of the post-socialist transformation of East-Central European cities and some remarks about the ability of urban planners and researchers to influence urban policies.

### **A Conceptual Framework of the Post-Socialist Transition of Cities**

The development of the East-Central European countries in the 1990s is usually referred to as the period of “transition” from socialism to capitalism. To understand the transition, the starting point has to be the socialist socioeconomic and political system, central features of which were a state monopoly of the means of production, a system of one-party rule, and a single-rank hierarchical social order with the cadre elite at the top (Szelényi 1996: 308).

From an urban development point of view, the essence of the socialist system was state control over both the supply and demand sides of the housing market:

the state strongly determined the income of the citizens, defining it on a low level, eliminating from it all those cost components (education, housing, health care) which were to be given free to citizens through state services. At the same time, the state acquired virtually all-important means of production and centralised all important investment decisions [Hegedüs and Tosics 1996: 6; UNECE 1997: 1]. Price control over the whole economy was an additional tool in the enforcement of political goals. (Tosics 2005a: 47)

In the socialist countries all aspects of urban development were directly controlled by the central state. The transition brought the collapse of strong direct state control, replacing it with less direct political and economic mechanisms, including multilevel administrative government systems and fiscal systems of revenue creation and distribution. In parallel, market actors and market processes were allowed, even pushed, to play an increasing role.

As noted above, the transition from socialism is a process of changes in three stages, starting from the centrally controlled socialist stage, through an intermediate, free market stage, and arriving finally at the regulated market society (see, e.g., Tosics 2006: 133).<sup>1</sup> Analysis of the three stages has to pay special attention to the turning points between them: first to the application of privatization and decentralization techniques to establish the market-based system, and then to the introduction of new public policies and reform of the institutional structure, as efforts are made to gain back some public control over the unregulated market processes.

These national-level factors create the macro-level framework for the development of urban areas, which are the concern of this chapter. There are a range of political, economic, environmental, and social consequences at the local level, depending on the nature and performance of national-level systems; we focus here on social outcomes. In each of the three stages, local policies and planning have very different levels of power and independence to establish their own strategies, with consequences for both outcomes and planners' own ability to take action in dealing with the most serious problems faced by their community.<sup>2</sup>

The chapter pays special attention to the social outcomes of the transition from socialism to capitalism. Two aspects of these outcomes will be discussed: the factors distinguishing the groups of population in better and worse situations as well as the measurable extent of social inequalities between these groups, and the changes in the sociospatial positions of different social groups, describing the patterns and extent of their segregation. Comparable information about changes in social inequalities and segregation, however, is very scarce. In the socialist period this research was considered "delicate" from a political perspective and forbidden or very much restricted by those in power. In the market society another problem emerged: decreasing funding for sociological surveys.

### **The Socialist Period of Urban Development**

#### **The Macro Processes—Determining the Functioning of the System**

The ideology as well as the day-to-day functioning of the socialist political and economic system are widely described elsewhere (see, e.g., Andrusz et al. 1996) and so will not be discussed in detail here. It should be noted, however, that although direct state control over the demand and supply sides of the economy was the essence of the system, this control could not be either fully established or maintained. During the many decades of socialist governance of both supply and demand, alternative mechanisms ("cracks") for supply and demand developed, decreasing the efficiency of state control, as illustrated by the historical overview of the development and changes in the socialist housing model (Hegedüs and Tosics 1996).

### The Social Outcomes

According to official statements in the socialist countries, urban development followed equalitarian principles with regard to allocation of advantages among people and among different parts of the city. The general and equal accessibility of social services was one of the important, stated political goals. This, however, was only partly achieved, just in some services (education and health care), and only at a low standard, beyond which large inequalities developed. In other services, such as housing, the politically determined processes of the planned economy functioned to produce outcomes that were, one might say, the opposite of an outcome under equalitarian principles. This was first demonstrated by Szelényi and Konrád (1969) in their empirical sociological analysis of the residents of four new housing estates in Hungary.

The results of this analysis showed—even to the surprise of the researchers—that the more “deserving” members of society had received systematic advantages in their access to the new state-owned units that were either free or very cheap. This access was at the expense of blue-collar workers, who were substantially underrepresented in the housing allocation despite the propaganda that had shown them as the main beneficiaries of state housing policy.

Szelényi and Konrád interpreted these results as a systemic outcome of socialist housing policy. They argued that housing was not considered a market good, so people’s incomes did not contain a “housing element.” For this reason the physical output of the housing sector and the allocation of the new units were largely determined by the state sector. The state, however, never considered housing construction a priority—instead industry was developed at great expense. Housing was considered part of infrastructural services, which were subordinated to the “productive” sector—as the saying said, “do not cut the chicken before the golden eggs come out.”

From this it logically follows that housing was one of the scarcest goods, for which long waiting lists developed. New housing became a prime object with which the state could reward some members of society. For these “deserving” people, a cheaply allocated flat was a compensation for their low income (income distribution was very much flattened out in the socialist system). As a result, the allocation of housing was based on “merits”: party and state functionaries were the main beneficiaries.

As an important part of their theory, Szelényi and Konrád proved that this allocation mechanism was neither a failure nor a corruption, but rather followed from the functioning of the system. This one-sided, inequality-generating mechanism was determining housing allocation throughout the



Figure 4.1 Urban rehabilitation of Block 15 in Budapest District VII, Erzsébetváros. The lower photograph shows the careful renewal of the old buildings, resulting in limited “socialist gentrification.” Photos by author.

socialist period, resulting in systematic advantages in housing consumption and spatial segregation of the new ruling class. Taken together, the empirical works of Szelényi and Konrád show that in the socialist period, despite ideological statements, housing inequalities were growing: "from 1950 to 1968 class inequalities in housing did not diminish, they increased. . . . But the people themselves were not generally conscious of increasing housing inequalities, or depressed by them, chiefly because the housing situation of all classes had visibly improved through the years" (Szelényi 1983: 73)

The inequality-generating outcomes of the socialist allocation policies were probably true for all socialist countries, although systematic research was very scarce, and practically forbidden by the ruling powers. The general statement about the state housing allocation could be made more precise in Hungary, where the state sector did not become as dominant as in other countries (e.g., the Soviet Union) and a market sector was always present as well. In both the state and the market housing sectors there were better and worse housing classes. Housing policy systematically favored the richer classes, as these received more state subsidies and could more easily improve their situation in both the state and the market sector. As Szelényi noted, "the richer classes get better housing for less money and effort, while the poorer classes get worse housing at the cost of more money or effort, or both" (1983: 63).

From this analysis it can be seen that segregation of rich and poor was produced in socialist cities by different mechanisms from those in Western European and American cities. A comparative analysis of the spatial structure of cities (Szelényi 1983: 148) has also shown spatial differences: slums in the socialist cities were in the transitional belt, American ones in the inner city, and Western European ones at the edge/periphery.

### Local Planning Policies

In the first decade of socialism, especially in the 1950s, the central state had a dominant position in shaping planning policies in all socialist countries. The role of the local, municipal level would only gradually gain in importance and only in countries with relatively relaxed (i.e., less repressive) forms of central control, so the following Hungarian example cannot be taken as representative of all socialist countries.

Policies aimed at rebuilding the stock of deteriorating, older parts of inner cities became prevalent only in the last ten to fifteen years of the socialist period. Prior to that time, planning policies concentrated exclusively on



new developments, mainly in the form of large housing estates in previously unbuilt areas or total reconstruction of the existing urban fabric in places considered slums. From the 1970s, Hungarian urban researchers argued for investing in the poor areas of the cities (at the outer part of the inner city and in the transitional belt). It is important to understand that the socialist regime increasingly accepted debates about poor areas of cities; however, directly addressing the case of the poorest strata of society was still not allowed officially.

The sociologists and planners who argued for the rehabilitation of poor, inner-city areas warned that renovation of housing stock might result in pushing out the poor from those areas. It is worth exploring the socialist period interventions to understand the extent to which the changes in the social structure followed the physical changes.

According to a study in the late 1980s, the urban rehabilitation of Block 15 in Erzsébetváros (District VII in Budapest) in the 1980s resulted in limited gentrification. All the tenants of the state-owned old and run-down tenement houses were moved out and rehoused in other parts of the city. The buildings remained in the public rental sector after total renovation. Two-thirds of the flats were allocated to families in nearby rundown houses; approximately one-third of the new tenants represented higher-status groups who got the renovated flats through exceptional allocation channels, as a reward for political or economic positions. Thus, the selective mechanisms of the state allocation could be traced and empirically proved, although the magnitude of the social change was much smaller than it would have been in the case of free market processes. Hegedüs and Tosics called this case “socialist gentrification,” referring to the gentrification-type changes caused by state allocation instead of market forces (1991: 131, see Figure 4.1).

## **The Free Market Period of Transition**

### **The Macro Processes**

The change from socialist to free market economic system in 1989–1990 came suddenly in most countries (e.g., GDR, Czechoslovakia, Romania), as a consequence of the collapse of the socialist political system. In some countries, such as Hungary (and even more Yugoslavia), the market-oriented economic transition started well before the political turnover.

The first turning point—preceded by a kind of “vacuum” before the introduction of a consistent system of basic laws (Tosics 2006: 133)—was a major



change: as a consequence of the collapse of the socialist system the “historic pendulum” went to the other side (Bertaud-Renaud 1995). When it came to privatization of housing stock and decentralization of administrative structure, it was clear that the oversized public housing sector had to be reduced and the top-down political and planning system changed. The restructuring processes, however, went much farther to the other extreme, replacing overarching state control in most post-socialist countries with dominance of free market relations.

### *Housing Privatization*

The post-socialist period started with mass-scale, large-discount, low-price housing privatization, called by American economists “give-away privatization” (Buckley et al. 1994: 18). This was probably the largest property transfer in history, and accomplished in a very short time, being in this regard much more “efficient” than the heavily criticized privatization efforts of Margaret Thatcher in the 1980s.

There were some differences among post-socialist countries in how privatization was implemented. The quickest and deepest changes were in the Southeastern European countries (e.g., Albania, Romania), while Poland and the Czech Republic were much slower. Compared to compulsory Right to Buy privatization in Hungary, the Czechs left it to local governments.

The speed of privatization was closely correlated with the size of discount from market value. In Budapest, for example, most rented dwellings were sold at an 85 percent discount from their market value. As a result, the share of public rental sector dropped from over 60 percent of the housing stock to below 10 percent within a couple of years. The main push for this give-away privatization came, on the one hand, from local governments (they wanted to get rid of the unprofitable public stock as soon as possible) and, on the other, from the main beneficiaries, the families living in the best publicly owned rental flats.<sup>3</sup>

### *Administrative Decentralization*

In each of the transition countries one of the first new laws aimed to establish a democratic system of local governments. There were substantial differences among the post-socialist countries, in the extent to which this change pointed toward the local independence of municipalities. In Hungary, as part of a total reversal of the previous system, complete administrative decentralization

was carried out: "There is no direct involvement of any central government officers or politicians in local decision-making and central supervision is restricted to checking the legality of procedures" (Bennett 1998: 38).

In principle, handing over real decision-making power to the local self-governments was a very important step toward the establishment of democratic societies. However, in the course of administrative decentralization in most post-socialist countries, local self-governments became very small (the number of Hungarian municipalities almost doubled around 1990. Their average size decreased to around 3,000 residents), and the administrative middle-tier (counties, regions, provinces) lost substantial power. As a result, the local public sector became too fragmented to create any meaningful public policy. Metropolitan-level policies, for example, are almost unthinkable due to the selfish behavior of even of the smallest local self-governments.

### The Socio-Spatial Outcomes

As a result of the collapse of the socialist housing model in Hungary the dominant state redistribution system became insignificant while the market allocation, which was previously of secondary importance, became dominant. Obviously, this dramatic change, replacing the extreme power of the state by an even more extreme dominance of the market sector, had a large effect on inequality, mostly shaped by the dominant allocational channel.

Privatization and decentralization were carried out *en masse* in the post-socialist countries despite the fact that the negative social consequences of such processes were already widely known at the beginning of the 1990s<sup>4</sup>. It can be proven empirically that both discussed changes lead to the further increase of socio-spatial inequalities.

#### *The Social Consequences of Give-Away Housing Privatization*

In the process of give-away housing privatization, the unequal distribution of advantages of the socialist period became marketized. In 1992, the Metropolitan Research Institute, Budapest, and the Urban Institute, Washington, carried out an empirical analysis of a sample of Budapest public tenants. The aim of the Budapest Rental Panel Survey (BRPS) was to compare the rent subsidies (socialist period) with the value subsidies developed in the process of privatization. According to the 1992 BRPS survey data, privatization turned the unequal distribution pattern of rent subsidies into an

even more unequal pattern of value subsidies. Thus “give-away” privatization was a large gift to sitting tenants in general, and to higher income tenants in particular (Hegedüs and Tosics 1994).

The marketization of the value of the housing unit enabled the ex-tenant, new owners to become mobile on the housing market: the larger the value subsidy was, the larger the mobility chances were. In this way housing privatization strengthened socio-spatial segregation. This general rule in Hungary was accompanied by a special one, the “condominium effect.”

In Hungary, the law on housing privatization prescribed the condominium form as the new legal framework for privatized houses. Each privatized building was turned into a condominium, in which the new owners became shareholders according to the share of the floor space of their flat in the total building. The “normal” decisions in the condominium (e.g., about smaller repairs) were regulated by simple majority rule. Larger decisions, for example, about the renovation of the façade, however, require a qualified majority. Until 2004 the requirement was 100 percent (a unanimous decision); since then it has been 80 percent.

The old multi-family buildings of Budapest (built as private rental tenement houses) had greater “inner” than “outer” segregation: the social differences were larger within the buildings (higher-status families living in the bigger and better equipped flats with street windows, while lower-income families in the smaller flats with windows only to the inner courtyard) than between buildings in different parts of the city. After privatization, when virtually all tenants became owners, the chances for overarching improvement of the condominiums became more differentiated across the different parts of the city. In the lower-status parts of Budapest, it was more difficult to achieve a unanimous decision about overarching improvements for a building, as the share of low-income and/or elderly families was substantial. Thus, many better-off families sold their units and moved to higher-status areas where the financial situation of the residents was better and more equal, allowing for larger-scale improvements of the buildings. So, the “condominium effect” led to substantial changes in the socio-spatial structure of the city and to increased segregation. This pattern might be different in other post-socialist cities with other legal forms of multi-family housing after privatization.

Privatization also brought unexpected side effects. Empirical surveys in the early 2000s have shown a sudden decrease in socio-spatial segregation in some parts of Budapest, especially as a result of the increase in the social



Figure 4.2. Urban renewal program in Budapest District IX, Ferencváros. The lower photograph shows high quality private developments, mixed with public renewal of old buildings and public spaces, leading to moderate gentrification. Photos by author.

status of the worst housing estates. This was because many of the poorest households (often belonging to the Roma ethnic minority), after receiving market value for their apartments, sold their expensive-to-run housing estate apartments and moved to single-family houses in smaller towns or villages. The out-moving, low-status families were usually replaced by in-moving young families, resulting in an increase in the social status of the housing estate. This unexpected consequence of give-away housing privatization, however, will most probably be temporary, and after a while the socio-spatial differentiation in the housing classes will increase again, according to “normal” (land value-based) logic.

### *The Social Consequences of Administrative Decentralization*

As already mentioned, the new, independent local governments became very small in size. In this situation, the role of the large cities, especially the capitals, increased. The fragmentation of the territorial system, coupled with the decision-making independence of each of the municipalities, led to a sharp differentiation in their development opportunities. Generally speaking a west-east slope has been developed (in almost all post-socialist countries), with higher development chances in the western part of the country. Another important differentiating factor is the distance to urban centers which offer greater chances for attracting investors.

The worst situation can be found in municipalities that are on the “losing side” as judged by both factors—the smaller municipalities in the eastern parts of the country in areas that lack large urban centers. Changes in these areas have led to irreversible processes, to deep poverty accompanied by ethnic segregation. According to Hungarian reports there are already at least one hundred totally segregated villages in the country with exclusively Roma population, and this number will likely double in the future. Everyone in these villages is unemployed, except the mayor.

Similar or even worse situations can be found in Roma settlements or urban areas in and around Romanian cities (see, e.g., Berescu and Celac 2006). These examples, although different in territorial patterns (Hungarian rural ghettos are in remote areas, while Romanian ones are close to the cities), show the total failure of all post-socialist countries in handling extreme poverty and in the development of preventive measures against the self-reinforcing processes of socio-spatial segregation under market circumstances.



### Local Planning Policies

As a direct consequence of the change of the political system, central planning completely disappeared: socialist five-year planning has been discredited to such an extent that forecast planning in general has been given up and only yearly budgetary plans have been prepared. All the central institutions for planning (such as the Central Planning Office in Hungary) have been dissolved. The total elimination of the planning power of the previously very influential middle administrative level (e.g., counties) in all post-socialist countries also shows the effects of the anti-planning mood of the first half of the 1990s.

The post-socialist changes created a set of contradictory circumstances for local planning policies. On the one hand, administrative decentralization resulted in increasing power at the municipal level: locally elected politicians could decide about all aspects of local development, unthinkable in the socialist period. On the other hand, privatization of much of the real estate (land, nonresidential buildings) and privatization of housing to sitting tenants took away key elements of local social policies. It is a well-known fact in Western countries that segregation can best be fought with an active housing policy, involving not only new construction but also renewal of existing stock. After almost total privatization of the housing stock in many post-socialist countries, housing (and land) has been eliminated from the list of tools with which the public sector can influence the processes creating greater inequities and socio-spatial segregation.

Under these circumstances the first post-socialist years can be labeled the “non-planning” period, when yearly budgets were almost the only documents determining activities at the local government level. Since that time, planning has reappeared but in a very different form: opportunity-led planning, in which, wrote Tasan-Kok, “the aim was no longer to ensure oversight but to enable piecemeal development; the latter generates financial support for municipal governments. Although this change in attitude leads to new types of development, it also leads to fragmentation in cities” (2006: 91).

Opportunity-led planning also meant that, without strong central government redistributive mechanisms, capital investors became dominant, increasing the already existing spatial inequalities between the different categories of municipalities (large versus small, western versus eastern). Typical local planning in larger cities became decisions about the next shopping centers or office buildings, usually accepting submitted plans and supporting

with subsidies the expectations of the investors. Municipalities wanting to pose environmental restrictions for large investments risked loss of the investments because developers could easily reach more favorable agreements in neighboring municipalities. This fragmented planning and decision-making system also led to urban sprawl as well as uneven and uncoordinated development in all post-socialist countries.

An interesting and exceptional case for local planning policies was the urban renewal program in Ferencváros (District IX in Budapest), where the local leadership aimed to introduce new, indirect methods of public control, in which revenue from private developers was used to fund city efforts. With the early approval of a renewal plan, the district was able to avoid the otherwise compulsory privatization of the multi-family housing stock. Empty plots and run-down buildings were sold to investors who were attracted to the area for new housing construction, while the district government used the revenues from the sale of the development opportunities for the renovation of the remaining part of the old housing stock (and privatization only happened after the completion of renovation); see Figure 4.2.

The Ferencváros example can be judged as a modestly gentrifying, area-based urban renewal program. This seems to be an unavoidable compromise and a reaction to the disappearance of public financial means—the deteriorated area could only be made attractive for investors and middle-class families through a substantial change in the local social structure, starting with the displacement of those that were thought to be the most problematic lower status social (ethnic) groups. Although no precise data are available, the level of gentrification could exceed that of the socialist case (previous example) while remaining much lower than pure market processes would have produced.

### **Toward a Regulated Market System: The Search for More Public Control over Unregulated Market Processes**

The second turning point is a change from the free market system into more regulated capitalism. The date of this change is not as clearly identifiable as the collapse of socialism and there might be larger differences among the different post-socialist countries as to when and how the new period started.

In Hungary, by the very end of the 1990s, it had become increasingly clear

that free market processes had led to very high external costs as inequalities grew to a level that was causing considerable problems. Although subsequent central governments recognized the need for new types of public interventions that could better regulate market processes, sharp conflicts between the political parties made it very difficult to introduce these new regulations (to change the basic laws a two-thirds majority is needed in the Parliament).

Another reason for change emerged along with these processes. A number of sectors in the economy, especially those providing basic services for the population (pension system, health care, education), were still using methods and institutions inherited from the socialist period. Their chronic inefficiencies and/or costliness meant that it became very urgent to introduce basic changes into these sectors. This led to what Széleányi called in a presentation as the “second reform crisis of transformation” (presentation at the Economics University in Budapest in 2008).

Although the two challenges came about the same time, they are different regarding their origins and the methods required for a solution. Even so, both types of problems had to be addressed to arrive to the end of the transition and the launching of a more or less stable, functional version of capitalism.

### The Macro Processes

By the end of the 1990s, the need for longer-term urban development planning had been recognized once more, as the free market processes, combined with the very fragmented local government system had led to very high external costs, including

- Clear inefficiencies in economic development: competition and rivalry (instead of cooperation and joint strategy) between neighboring small municipalities, leading to incoherent decisions with too high costs and little chance of being efficient in a market sense;
- Clear inefficiencies in infrastructure development: as a consequence of massive suburbanization the quickly growing agglomerated municipalities had to build new social infrastructures, such as kindergardens and schools, while the large cities the population was leaving had to close down similar facilities;
- Growing negative environmental externalities: the consequences



of sprawling development were traffic congestion, increased travel times and more air pollution around the cities;

- Growing negative social externalities: the formation of social/ethnic ghettos in inner parts of cities as the middle class residents moved into new housing in other parts of urban areas, including gated communities of the rich.

All these problems threatened the economic competitiveness of functional urban areas. With the growing equalization of “hard” infrastructure conditions, the decisions of economic actors selecting where to invest began to depend more on the “soft” factors. Both governance conditions (willingness of public and private actors to cooperate) and environmental conditions are playing increasing roles (Tosics 2005c), as is the social protection system (social sustainability, socio-spatial position of the different strata), which is becoming more and more important.

As a result of the growing problems with the free market oriented mechanisms and the fragmented administrative system, in the early 2000s new types of public interventions were gradually introduced in post-socialist countries and cities. These are based on new approaches, in both financial and institutional terms.

Several attempts were made on the national level to strengthen supra-local control over the very independent local self-governments, with a goal of awakening interest in cooperation instead of fierce competition between neighboring municipalities. The idea of such an attempt is to introduce a strong administrative middle-tier, self-governing regions, to exert control over local municipalities. This happened in Poland, but implementation proved unsuccessful in Hungary (the law on regional self-governments did not get the needed two-thirds vote in the Parliament in the second half of the 2000s). The law on initiating noncompulsory cooperation at the level of small regions can be considered more successful: although cooperation of municipalities in the small regions could not be enforced from the top down, most cooperate in the prescribed composition as it is a precondition for additional central financing of public services.

From a social policy point of view, one sign of the new approach is the national system for targeted housing allowances. Until the early 2000s the social allowance systems were regulated and financed exclusively by the municipalities, which created huge disparities according to the financial positions of the municipalities. In the early 2000s, a national system for targeted



Figure 4.3. Social renewal program in Magdolna Quarter of Budapest District VIII, Józsefváros. The lower photograph shows significant changes in the central square: renovated residential buildings, community center, and desegregated school in the back. Photos by author.

housing allowances was introduced, allowing even poor families living in poor municipalities to get allowances, as these are financed largely by the central state according to a unified scheme.

In Budapest's two-tier administrative structure (one municipal and 23 very independent district local self-governments), only the first efforts to increase higher-level public control over the fragmented administrative system are observable. The modification would aim to regain rights to the municipality from the districts so as to create more balanced territorial policies (unified parking regulation, limitation of car traffic, etc.).

The cooperation problems are even worse around the capital city, where the 82 municipalities belonging to the Budapest Agglomeration (which is only a statistical unit) have absolute freedom to decide all planning issues on their own. It was only in 2005 that a parliamentary law was introduced to limit the freedom of the local self-governments in the Agglomeration area to rezone the non-urban parts of their territories into urban land use categories. It remains to be seen how effective this regulation will be in reality (in the course of the long discussion of this law, all agglomerational municipalities rezoned large areas to create sufficient "reserves" against the higher-level control). The establishment of a metropolitan level transport system is also on the agenda and has been for a long time. It has been proceeding very slowly, although it would be advantageous for all municipalities. Cooperation between large cities and their surroundings is problematic in all post-socialist countries.

The new approach toward the role of the public sector is also observable in the decisions about large developments. In the 1990s the usual solution was to sell public properties and let the private sector do the development. In the 2000s the number of public-private partnerships, in which the public sector plays an active role, is increasing, and local governments have the ability to sign agreements with developers requiring additional projects in return for rezoning or building permission.

### The Socio-Spatial Outcomes

As the discussed changes are very recent, only hypotheses can be raised about their effects and consequences while empirical evidence is, in most cases, still lacking.

The increasing role of the public sector in urban development is in itself not enough to ensure more just social outcomes. As seen in the socialist

period, there is no guarantee that public allocation will follow social considerations. Besides, the new public sector attempts are very limited, and the hard factors (housing, land, development means) remain largely private. Moreover, the chances for corruption endanger the social orientation of innovative methods, such as public-private partnerships, that are intended for the better cooperation between the public and the private sector.

### Local Planning Policies

Although the belief in pure market processes has weakened and there are some emerging central policies for more public steering, examples of local government interventions toward an equalizing role of the public sector are still rare. One such case is the Budapest pilot social rehabilitation program in the Magdolna Quarter in District VIII, Józsefváros, launched in 2004.

Since the late 1990s the municipality of Budapest has contributed a limited amount of public money to the renewal of the inner-city districts. In the framework of the Budapest Urban Renewal Program (BURP) the inner-city districts have the opportunity to bid for “action-area” status within deteriorated smaller neighborhoods. The action-areas receive financial support from Budapest municipality to fulfill their urban renewal plans.

This program was a step forward compared to the market-led restructuring of the inner-city housing stock, which usually led to changing functions of buildings in the best ecological positions (residential houses turning into hotels and office buildings) or to gentrifying private residential buildings. The BURP, however, lacked a social orientation. Among the deteriorated areas of Budapest it was not the socially most problematic ones that became action areas for urban renewal, but those in which the district self-government was the most able to develop a concept for urban (re)development. This can easily be shown by the fact that at least half the municipal support for action-area urban renewal went to only one district, the most professionally planned area-based renewal in District IX (discussed in the previous section).

Under such circumstances, the pilot social renewal program in the Magdolna Quarter of District VIII, Józsefváros—one of the most deteriorated areas of the city—was an especially important innovation. This is the first case in Budapest where the aim of the urban renewal efforts was not exclusively to improve the physical fabric but instead to give social, health care, and educational aspects equal weight. The final aim of the program is to improve living conditions in the area, working together with families who

live there now (although a better social mix is also something to be achieved through new construction).

The Magdolna program has four main “pillars.” The first is a special program for tenants that aims to create ways public tenants might contribute to the renovation of their buildings. The second seeks to build communities on the basis of a community house (converted from an industrial building), the third is oriented toward improvement of public spaces, and the fourth addresses problems of safety and education. According to the strategy, Magdolna will never become a rich area. However, the colorfulness and diversity of Józsefváros should be brought back, the deep poverty should disappear, and segregation should decrease, ending the so-called ghetto character of the neighborhood. The pilot program was financed initially for three years jointly by the municipality and the district. Recently, EU funding became available which opens up the possibility for more costly interventions, such as refurbishment of residential buildings; see Figure 4.3.

Compared to the case of Block 15 (socialist gentrification) and Ferencváros (publicly steered and largely market-financed gentrification) Magdolna quarter is the first example in Budapest of the public sector playing a new role: to ensure the social orientation of the renewal process with concrete interventions protecting the most needy strata of society.

The Magdolna quarter case, however, is still exceptional. It is very difficult, even today, to convince local politicians to prioritize social policy considerations over aims such as investment in physical improvements or economic development. This is what has happened with the EU Structural Funds programs, where there are far fewer demands by local politicians for integrated interventions into deteriorated areas than for infrastructure developments in the central parts of cities.

### **Summary and Evaluation: Post-Socialist Transition and the Role of Urban Planning**

#### **Critical Summary: How Well Do Post-Socialist Cities Perform?**

Almost two decades after the political changes and the move to market principles, urban development plans and procedures in post-socialist cities are still determined almost exclusively on the local, municipal level. This strong decentralization, coupled with the significant influence of free market mechanisms (as a consequence of widespread privatization) has led to extreme





Figure 4.4. Visual differences in the urban development of three central European capitals. Top to bottom: Prague, Warsaw, and Budapest. Photos by author.

weakness of all social aspects of post-socialist urban development processes. In this regard there are striking differences between Western European and post-socialist cities in their institutional systems, governance methods, urban development plans, economic development strategies, and housing concepts. In many Western cities, the public sector controls substantial amounts of urban land and a percentage of the housing sector that corresponds at least to the percentage of poor residents. These tools are necessary for active use of social criteria in urban development processes and decisions. The post-socialist cities have lost these opportunities over the last two decades.

Despite recent attempts at public efforts to decrease socio-spatial inequalities, the final balance regarding the social aspects of post-socialist urban development is quite negative. In the face of a fragmented administrative system and largely privatized and marketized property relations, the public sector has little opportunity to fight for greater equity and to protect minorities. Moreover, there is very little interest or political will from politicians to deal with these difficult issues as they bring little reward in the short run from the majority of society.

We can argue that the first attempts to strengthen the influence of the public sector over the market processes mean, in a formal sense, the end of the transition of the post-socialist countries from socialism to capitalism. The weakness of the public sector shows that these countries arrived at the end of their transition to the Southern European less regulated version of capitalism, quite far away from the Northwestern European more interventionist social welfare-oriented version.

In both their rhetoric and in political statements, many of the post-socialist countries would like to continue strengthening the public sector, building toward a Scandinavian or German model (sometimes called “social market systems”). However, the public policies needed for this development path are very costly and presuppose strong public power and the possibility of new regulations being developed at the higher (supra-local) administrative level, while also keeping strong public leadership on the local level. Such ideas are not feasible in most post-socialist cities at the moment, neither financially (both because they are relatively poorer countries and because of the public spending limits imposed on those looking to meet the Maastricht criteria in order to introduce the Euro) nor politically—the idea of a strong administrative middle tier in the form of self-governing regions has been rejected, for different reasons, by the ruling parties in most post-socialist countries.

The aim of this chapter has been to give an overview of post-socialist

urban development, although most of the concrete examples came from Hungary. Given this, can the situations of the post-socialist countries be compared, or should the hypothesis of growing divergence be considered? After all, under socialism the same basic model (with some variation) was introduced in all East-Central European countries. The first change, marketization, the change toward a free market system, went on with some differences in depth and speed of changes in individual countries. The second change, development of new public policies, showed even larger differences: the public sector had to be strengthened from both financial and political points of view, for which budgetary conditions and political ideas (decentralization versus strong centralistic leadership) seem to vary substantially among post-socialist countries. The largest differences in this regard can be seen between the Visegrad countries and both the Balkan countries and post-Soviet states; see Figure 4.4.

- Prague: the restituted inner city was renovated, lost most of its residential function, and resembles an open air architectural museum;
- Warsaw: the central business area was taken over by skyscrapers, which can also be discovered in outer parts, where plots were available randomly as a consequence of restitution;
- Budapest: the inner city is a patchwork of renovated and dilapidated houses with renovation decided by the condominium owners.

It remains to be seen whether the present divergence—largely due to differences in economic positions and ideologies of ruling parties in these countries—will last. It is certainly possible that the common challenges to the East-Central European area (peripheral position in Europe, migration losses and aging of population, energy vulnerability, climate change) will bring them closer again in their development path.

#### Opportunities for Urban Researchers and Planners to Influence Urban Policies

In the socialist period planning was strong in a technical sense, while not allowing any discussion of either the politics of plans or their political consequences. Social researchers had very limited opportunities, as the analysis



of the poor strata of society and deprived areas was not wanted or allowed. Beginning in the 1970s, sociologists became more accepted partners in the planning processes, but still concentrating mainly on technical (brick and mortar) aspects.

The first turning point, the collapse of socialism and development of the free market capitalist system, brought interesting changes in the relationship among research, planning, and policy-making. Many researchers or planners suddenly became politicians on the local or even national level. Such changes, however, did not mean that the actual influence of research and planning increased. In the early 1990s, medium- and long-term urban development planning completely disappeared, replaced by short-term budgetary planning. Real decisions were made through sectoral policies, with decisive consequences for the spatial and social processes. Urban researchers and planners could aim only at influencing these changes. Even in this respect their influence was marginal—the “hard and direct” short-term interests of politics always overcame their warnings, which usually pointed out foreseeable negative long-term effects. Alternative proposals had little chance of being implemented.<sup>5</sup>

With the second turning point in the transition process, from the late 1990s onward, planning has gradually returned in the post-socialist cities, without, however, a strong public sector able to implement overarching urban development plans. Strategic plans for the larger cities have been developed (for Budapest see, e.g., Tosics 2001), but these general plans have had only marginal influence over real-life processes. In the new period, social researchers have gotten more chances to develop new ideas for sectoral policies (see the pilot program of social urban renewal in Budapest), as politicians had to become more open to avoiding the deepening of social crises.

More recently, EU accession with its extensive planning requirements has created a good deal of work for planners. The European level prescribes the involvement of affected groups in planning procedures (public participation). For the time being, the European level is the strongest in pushing for a modernization of the planning process. The national and local level follows behind, mainly interested in getting the financial support from the structural funds.

All these positive changes, however, have had little effect on social outcomes (social equality is not even among the main priorities of EU programs). To a large extent, the limited chances given to social research and planning to influence policy has contributed to the weak social achievements of post-socialist urban development in the East-Central European cities.

## Notes

1. Iván Szelényi conceptualizes the matter differently. In his view, the transition from socialism to capitalism leads through two crises: the first connected to the establishment of the basic institutions of the market system, and the second to the need to rework the social institutional structure inherited from the socialist period (from a presentation at the Economics University in Budapest in 2008). The two ways of conceptualization are not far from each other: the first crisis of transition is in close connection with the first turning point, following it with some delay. There are some differences, however, in the timing of the second crisis and second turning point.
2. A somewhat similar conceptual framework has been developed for the analysis of urban changes in the post-socialist cities by Tsenkova 2006: 24.
3. For more detail see Tosics 2005b: 262–63.
4. Cf. the analysis of Margaret Thatcher's housing privatization in the many publications of Alan Murie and Ray Forrest in the late 1980s, summed up, e.g., in Forrest-Murie 1991.
5. An example of this can be found in the story about a concise system for local public housing policy without privatization, in Hegedüs et al. 1993.

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