

The Socialist Ideology about Housing

According to Demko and Regulska (quoted by Smith, 1996: 72), socialist ideology aims for the equality of the people. Within this wider aim, ensuring nondiscriminatory and nonspatially differentiated housing was considered an important goal. "No social or occupational group would have better or more favourably located residential sites so that one would find a randomly distributed housing pattern."

In the fight to achieve equality, the abolition of private property was one of the very first aims and actions of the 1917 revolution in Russia. Except for the peasant households' landownership, all other land was taken away by the state, resulting in the total nationalisation of urban land. Later, in the 1936 Constitution, the concept of personal ownership was introduced, limited for a household to one house "without the right to derive 'non-labour income' from its ownership" (Marcuse, 1996: 129). These radical regulations resulted in a very one-sided tenure structure: in 1990, by the end of socialism, 79% of Soviet urban housing was state owned, 5% was owned by public and construction cooperatives, and 15% was in personal ownership (Berezin, 1992, quoted in Marcuse, 1996: 130).

In the other socialist countries – where socialism ruled for a shorter period – similar principles were applied but to varying extents. The nationalisation of property was an important part of the development of the socialist state; nevertheless, in all these countries, a significant share of land and housing remained in private ownership. In Hungary, for example, buildings with fewer than six rooms were exempt from nationalisation: as a result of this the share of state ownership of housing always remained below one-third (in Budapest below two-thirds) of the total stock.

The state ownership of land and housing was not the sole factor controlling the housing system in socialist countries. To understand the logic of state control in housing, first the basic features of socialism have to be mentioned: state monopoly of the means of production, the system of one-party rule, and the single-rank hierarchical social order with the cadre elite at the top (Szelényi, 1996: 308). Second, it is important to understand the main aspects of the socialist economic system (Hegedüs and Tosics, 1996: 16): a central planning system (centralising economic decisions to a narrow political elite), and strict income regulation, paying low wages without adding the costs of housing, education, health

care, and infrastructure (i.e., centralising these elements into the state budget). On that basis the following additional political-institutional factors were introduced, which became specific determinants of East European socialist urban and housing policies (Tosics, 2005):

- strong and direct state control over land use, leading to very specific land-use patterns expressing the preferences of the socialist state (Bertaud and Renaud, 1997);
- administrative limitation of housing consumption (one dwelling per family);
- state control over the most important housing-policy factors (state-financed housing construction, social housing policy, subsidised private housebuilding, loan origination, and construction industry and materials);
- control over the private housing market (private rents) and indirect regulation of the self-financed form of housing construction;
- administrative limitation of the size and development (inflow of population, industrial growth) of major cities; and
- direct control over the financial resources of the cities, and control over the political decision-making process.

All these factors made it possible for the East-Central European countries to exert strong control over the functioning of the land market and housing system, even if they did not own all – or even the majority of – the land and the housing stock. Owing to the basic similarity of the framework conditions, the notion of the East European (Socialist) Housing Model has been introduced (Hegedüs and Tosics, 1996: 16).

The Real Functioning of the Socialist Housing Model

The label 'Socialist Housing Model' indicates that this housing system was qualitatively different from other Western housing models. Western models were based on market relationships regarding the land and the housing, which were also considered market commodities (although state interventions were always present to correct market failures). The distinctiveness of the socialist housing system coincides with the view of Iván Szelényi who states that "urban development in the socialist epoch in Eastern Europe was quite different from urban development in Western countries at a similar stage of economic growth" (Szelényi, 1996: 286).

How did this socialist housing model function in reality, and to what extent has the socialist state fulfilled its promises to supply housing to everyone in an equitable way?

The detailed analysis of the logic and real functioning of the socialist housing system (Hegedüs and Tosics, 1996) shows how different the reality was compared with the ideology. First, the control of the state over housing construction and private transactions was never total – in practice the private sphere, with some limited market relationships, was always present. It is possible to prepare a rough periodisation according to the strengths of state control over the private or market sphere. Periods of strong control were followed by periods of less control (1947–56: introduction of strict control with redefinition of property rights; 1957–68: concessions to the private sector; 1969–80: a new wave of centralisation; 1980–90: decentralisation due to economic crisis; Hegedüs and Tosics, 1996: 22). Second, even when the state control was at its strongest, the system did not function according to the original principles regarding the supply and allocation of new housing.

These two basic aspects of the malfunctioning of the socialist housing systems are connected with each other. In the first decades of socialism, the quantity of new housing production was very low. Infrastructure investments in general and housing construction in particular were subordinated to the need for 'productive' investments (i.e., development of industry). Most of the state's resources were allocated to industry. Political leaders used the slogan, 'cutting the chicken before the eggs are coming out', to describe the use of resources for the production of housing, as it would take away money from industrial development.

The low level of new housing construction led to a shortage in housing similar to the shortages in the other sectors of the socialist economy (see the famous book of János Kornai on the shortage economy; Kornai, 1980).

The general and equal accessibility of social services was one of the important political goals of socialism. However, in housing this was never achieved – education and health care came closer to the principle, although the standards were still low. Szelényi and Konrád (1969) carried out an empirical sociological analysis about the residents of four new housing estates in Hungary. They were thus the first to prove that the politically determined processes of the planned economy did not function according to egalitarian principles. Moreover, these processes increased social inequalities, achieving just the opposite of the ideological statements. In the allocation of the freely or very cheaply distributed (but scarce) new state and cooperative flats the more 'deserving' members of the society have got systematic advantages, at the expense of the blue-collar workers who were substantially underrepresented. "... 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).

According to Szelényi and Konrád this allocation mechanism was neither a failure nor a result of corruption, but followed from the very functioning of the system. As housing became one of the scarcest goods – for which long queues developed – the state used the allocation of new housing to reward 'deserving' people. For the political and economic ruling classes, the cheaply allocated flat was a compensation for their low incomes (the income distribution was very much flattened out in the socialist system). These are the main reasons for the 'merit-based allocation' of housing, in which party and state functionaries were the main beneficiaries.

The logic of the socialist housing model did not apply just to state rental housing. There were many other tenure forms, such as cooperative housing or even state-built owner-occupied housing, where the state had direct control over the land, permissions, construction processes, costs, and allocations of flats. Individual efforts and market relationships played a role only in the single-family housing form (and from the late 1970s, small condominiums). However, these housing forms were not allowed to attain a significant share of the housing in socialist cities.

Interestingly enough, in the Hungarian reform period (1968–72) the real functioning of the socialist housing system could openly be surveyed and discussed. Nevertheless, not much later in 1975, Szelényi was expelled from Hungary, while Konrád had to accept a publication embargo. They had further developed their theory about the real functioning of the socialist system: their book describing the path of the intelligentsia to class power (Konrád and Szelényi, 1978) was far too radical, questioning the whole ideology of socialism.

As emphasised, the socialist housing model was an integral part of the socialist model of economic and political development. The dominance of state ownership in land and in the means of new housing production also resulted in significant changes in the spatial structures of the cities. After the nationalisation of the housing stock (late 1940s to early 1950s), housing authorities "were under tremendous pressure to keep rents low in order to match low wages, and to build as much new housing as possible" (Szelényi, 1996: 304). Consequently, there was no spending at all on existing public housing, whereas new constructions took place in larger developments. These developments were located on sufficiently large, unoccupied territories in the outskirts of the cities and were suitable for new housebuilding technologies using prefabricated elements.



Figure 1 Large prefabricated housing estate from the socialist period (aerial view, Kőbánya Újhegy housing estate in Budapest built in late 1970s).

The consequences of the lack of market relationships in land and housing were large new housing estates in peripheral areas and neglected old housing stock in the inner areas of the cities. Flats on large estates of over 2500 units constituted 20–40% of the total housing stock compared with 3–7% in West European countries. It is hard to imagine that people in East European countries liked such estates more than their Western counterparts did – this, of course, was not the case. In the state-controlled system, the real preferences of the population did not count at all. These preferences were substantially modified anyway by the artificially low rents and the huge subsidies granted not only for the construction of prefabricated housing (see Figure 1) but also for the renting and buying of such flats (Tosics, 2004: 80).

The social structure of the cities changed accordingly: the beneficiaries of state housing allocation moved to the new housing estates, while the rest remained in the deteriorating inner-city areas, which became increasingly dominated by older and poorer tenants (see Figure 2). This sociospatial development was the complete antithesis of the patterns of housing in the presocialist period, when higher-status social groups congregated in the prestigious inner-city areas. In some other parts of the city, the changes were less visible from the outside but were very important in the structural aspects. The elitist character of the best-located green areas with villa-type buildings was preserved: the presocialist elite was swept out and the new cadre-elite occupied the villas. The agglomerations around the cities remained low-status areas with little or no infrastructure services. These areas grew in density

because of people moving to the large cities without being able to acquire housing within them.

The Transition from Socialism to Capitalism

Soon after the collapse of socialism it became clear that these countries had inherited large, very inefficiently managed and run state rental sectors. A careful analysis of all the aspects of housing has shown that the main housing problem in these transition countries was not the nonavailability (shortage) of housing but the low quality, bad location, and misallocation of the stock (Hegedüs et al., 1996). In addition to this ‘internal’ factor, external factors for radical change were at work in the economy. This change necessitated the restructuring of the existing housing systems and policies in the 1990s, and not new construction.

At the beginning of the transition, the hypothesis was raised that housing could become the ‘agency of change’. One sector – in which market mechanisms (e.g., bank financing, market rents, and targeted housing benefits) were quickly introduced – could induce market-oriented changes in the other sectors of the economy as well. Instead of this progression, however, in all the postsocialist transition countries “housing was designated to be a ‘shock absorber’ while other reforms went forward – implying rents remained frozen and few other changes occurred besides cuts in subsidies in new construction and handing over of some units to tenants (‘privatization’)” (Struyk, 1996: 3).



Figure 2 Deteriorated inner-city area, no improvements in the socialist period (Budapest, District VIII, Józsefváros).

Two steps were relatively quickly performed in most of the transition countries: first, the transference of the ownership of public housing from the central state to local governments; second, the denationalisation of the public housing stock.

Regarding the denationalisation of the public housing stock, three options were available, as the nationalisation of the stock could be reversed in different ways. The least-applied method was the privatisation of the management companies: this happened in Germany only. The second method was the 'restitution' of the stock, involving handing back the buildings to the heirs of the former owners, who had been stripped of their landlord statuses as part of nationalisation. The process of restitution raised a lot of legal questions (e.g., confirming the identity of the owner of the house exactly 40–45 years earlier; protecting the present tenants from sudden rent increases). This method was applied in many of the countries, but not all – Hungary was among the exceptions where this method was not followed for the housing stock. The third method was the 'privatisation to the sitting tenants', in effect, selling the flats to the actual renter families.

Most of the Western advisers arriving in the early 1990s to the transition countries came from Anglo-Saxon countries and argued for quick privatisation. There were two main arguments: if the housing stock was sold at market price, it could provide the state with substantial funds to manage the transition. Second, privatisation would decrease inflationary pressures as the excess demand of the households is soaked up by buying their flats and they become interested in saving more. There were, however, counterarguments as well: if units are sold below their market values, the allocation of

gained subsidies becomes important. Moreover, it is important to keep a substantial rental stock for many reasons – geographical mobility, starter families, lowest-income families, and so on. If privatisation is successful, the rental sector can easily shrink below the minimally required level, that is, below the proportion of poor families.

A compromise between these various factors could have been reached by balancing the scale of privatisation with the level of discount offered on the market value of the flats. With relatively low discounts, privatisation could have helped the state in overcoming the economic difficulties while the rental sector preserved a sizeable share within the housing stock (see Figure 3).

Rational considerations, however, could not play a large role in the transformation of the housing sector. In most transition countries there was a strong political push for large-scale privatisation, on the parts of both the households (who were uncertain about future rent levels and wanted to become owners) and the politicians (who wanted to gain popularity by offering large discounts to the population).

Consequently, in the process of housing privatisation, larger discounts were offered in most transition countries than in the United Kingdom in the 1980s by Margaret Thatcher. This was despite the fact that the sale of the UK council housing was very sharply criticised by housing analysts owing to the many negative externalities. Using the 'give-away' principle in most postsocialist countries caused the public rental sector to decrease dramatically. The quickest and most dramatic changes were to be found in the South-East European countries (e.g., Albania and Romania), while Poland, the Czech Republic, and Russia were slower to follow, as can be seen from Table 1.



Figure 3 Consequences of privatisation: Tirana, rain-pipe on the house is broken, but the owners, who invested a lot into their dwellings (see the new satellite dishes and shutters) do not pay any attention to that, as it does not belong to their own flats.

Table 1 Housing privatisation between 1990 and the early 2000s

	Public rental in 1990	Public rental after 2000	% Privatised
Albania	35.5	1.0	97.2
Lithuania	60.8	2.4	96.1
Romania	32.7	2.7	91.7
Croatia	24.0	2.9	87.9
Bulgaria	6.6	3.0	54.5
Slovenia	31.0	3.0	90.3
Hungary	23.0	4.0	82.6
Estonia	61.0	5.2	91.5
Slovakia	27.7	6.5	76.5
Latvia	59.0	16.0	72.9
Poland	31.6	16.1	49.1
Czech Republic	39.1	17.0	56.5
Ukraine	47.3	20.0	57.7
Russian Federation	67.0	29.0	56.7

Source: From Hegedüs J and Struyk R (2005) Divergencies and convergencies in restructuring housing finance in transition countries. In: Hegedüs J and Struyk R (eds.) *Housing Finance, New and Old Models in Central Europe, Russia and Kazakhstan* OSI/LGI, pp. 3–39.

Table is based on data from the UN-ECE *Bulletin of Housing Statistics for Europe and North America, 2002*.

Housing in the Postsocialist Countries

As the process of privatisation was dictated by the 'give-away' principle, the manner of the allocation of the large discounts to the population became important. The discount usually increased with the value of the flat; thus the social effects largely depended on the ways in which public rental housing had been allocated in the earlier (socialist) times.

In the course of the give-away housing privatisation, the unequal distribution of advantages that accompanied the socialist period became marketised (Tosics, forthcoming). In 1992 the Metropolitan Research Institute, Budapest, and the Urban Institute, Washington, carried out empirical research on a sample of public tenants in Budapest. The results showed that privatisation continued the unequal distribution pattern of the rent subsidy, transferring – and even worsening – the unequal situation from the rental stock into the private sector. In this manner, give-away privatisation was a large gift to sitting tenants in general, the additional effect being the further increase in inequalities in favour of the higher-income tenants (Hegedüs and Tosics, 1994).

Little empirical data are available about the spatial allocations of advantages and disadvantages. According to popular belief housing privatisation strengthens socio-spatial segregation, as the marketisation of the value of the housing unit enables the ex-tenant (new owners) to become mobile on the housing market. The larger the subsidy value is, the larger will be the chances of mobility. In the privatised buildings qualified majority decision (in the Hungarian condominiums at least 80%) is needed for the renovation of the common parts of the building. In the lower-status parts of Budapest it is more difficult to achieve the qualifying majority, as the share of low-income and elderly families is substantial. Thus there is a chance that the better-off families will sell off their units in these buildings. They can then move to higher-status areas where residents belong to the same financial strata and where larger-scale improvements to the buildings are possible.

As a consequence of this give-away privatisation, by the end of the 1990s, housing in most of the transition countries changed formally into systems dominated by property-ownership. This had far-reaching consequences both on the privatised housing stock and on the remaining public rental housing.

The privatised housing sector developed gradually into a real market sector. In the first years of transition the privatisation of housing did not entail the development of real housing markets. The new owners did not yet consider their flats as commodities; there was little cooperation between owners within the same building; mobility remained low; and the banks did not accept the

privatised units as collateral for bank loans (Hegedüs and Tosics, 1998: 161). In the more advanced postsocialist countries, however, the newly privatised multifamily buildings quickly adapted to the usual characteristics of multifamily owner-occupied housing listed below.

- The process of homogenisation of the household structure within the houses started, partly in connection with the 'renewal effect' described above.
- The chances of renovations of the buildings started to be differentiated according to geographical position (land and property value).
- This newly emerged sector offered flexible opportunities for nonresidential activities, as flats could be easily converted to office use.

By the end of the 1990s, banks started to issue mortgage loans. In the more advanced postsocialist countries this signalled the development of all the important aspects of owner-occupied housing: the transition to the owner-occupied sector was complete.

The public rental sector became residualised in most postsocialist countries as the direct consequence of the give-away privatisation: only the 'leftovers of privatisation' stayed in the public rental sector. This implies the presence of all the usual deficiencies of marginalised social housing – the concentration of poor families and the slender hope for renovation. As the better-off families 'ran away' with the better-quality housing stock, the remaining stock was not self-sustaining anymore (rents could not cover costs). Maintenance and renovation thus became even more dependent on the decisions of the already financially overburdened local authorities (see Figures 4 and 5).

The process of residualisation of public rental stock is characteristic of most postsocialist countries – only the Czech Republic, Poland, and Estonia kept more than 5% of stock as public rental housing. With this the postsocialist countries – together with the South European countries – form a special type of social housing provision within the typology of the EU countries (Table 2). They all belong to the targeted approach, which is based on the assumption that the objectives of housing policy will be met predominantly by the market. Only those households for whom the market is unable to deliver housing of decent quality at an affordable price will benefit from social housing. Moreover, most of the postsocialist countries (with the exception of the Czech Republic and Poland, where social housing is allocated to households falling under a certain income ceiling) subscribe to the most restricted version of social housing provision, focusing exclusively on the most vulnerable sections of society.

The development of a dominant owner-occupied sector – with a very small, residualised public rental sector – indicates radical changes in the housing systems of the East-Central European countries. "... current mortgage arrangements, income levels and house prices make housing unaffordable to a large number of households. The previous shortage of housing has been replaced by a shortage of affordable housing" (Tsenkova, 2000: 132).

Summary

It is not the task of this article to give a full overview of the housing policies of postsocialist countries after the end of the transition. However, by focussing on the



Figure 4 Gentrification of inner-city areas (Budapest, District V, Belváros-Újlipótváros).



Figure 5 Ghettoisation of the poorest strata (Budapest, District VIII, Józsefváros).

transition and its effects on the development of the new capitalist system, it is possible to conceptualise the direction of change.

Table 2 Typology of approaches to social housing provision in EU countries

Size of the sector	Allocation criteria		
	Universalistic	Targeted	
		Generalist	Residual
20% and more	The Netherlands Denmark Sweden	Austria	United Kingdom
11–19%		Czech Republic France Finland Poland	France
5–10%		Belgium Germany Italy	Ireland Belgium Estonia Germany Malta
0–4%		Slovenia Luxembourg Greece	Hungary Cyprus Portugal Bulgaria Lithuania Latvia Spain

Source: From Cecodhas (2007: 16) *Housing Europe 2007. Review of Social, Cooperative and Public Housing in the 27 EU Member States*. Brussels: Cecodhas European Social Housing Observatory.

The East-Central European countries were forced in the 40–45-year-long socialist period to introduce a specific housing policy (called the socialist housing model) with strong state control over all aspects of housing policy. After the collapse of the socialist politicoeconomic system, in the course of the transition to the capitalist system, the housing sector was not a forerunner for free market forces. Even so, in most of these countries the state quickly declined any responsibility for housing. This resulted in a development path that headed towards the South-European housing systems, where market regulations dominate without any state-sponsored overarching welfare protection system. In this sense the housing in postsocialist countries remained as different from the mainstream European housing systems as they had been earlier during the socialist period.

See also: Housing and the State in China.

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