

I. THE ROLE OF HOUSING IN SOCIETIES UNDERGOING TRANSITION

Housing sector reform in central and eastern Europe is not seen as a central issue when assessing the performance and prospects of their economies. In general it is assumed that housing as a "consumption good" will, sooner or later, be provided according to consumers' preferences without major governmental interference.

Several reasons might support this argument:

- **The given dwelling stock largely determines housing consumption.** Even in periods of high growth, new dwelling construction rarely exceeds 2 per cent of the existing stock a year. Neglecting new construction for several years may merely trim some 10 per cent off the overall housing supply. Such a reduction will be even less relevant, if real income drops, the population decreases, household structures are stable, and no major migration takes place.
- **Massive State subsidies in all centrally planned economies provided the economic basis for housing provision.** In economies in transition, even more than in the traditional market economies, narrowing State budget deficits and fighting hyperinflation are primary goals. Cutting housing subsidies is consequently regarded as one of the most evident options when redefining the involvement of the public sector.
- **Export-oriented sectors rather than domestic consumption are the focus of political and economic attention.** When creating production capacities that are competitive on open markets, new technologies often have to be imported so foreign currency is needed.

The above arguments are certainly valid, and as a result abandoning State responsibility for housing is today a generally accepted concept in the countries in transition.

Consequently, the ongoing housing sector reform in transition economies is based on three major policy tools:

- (i) *Decentralization.* Where responsibility for the housing sector rested with central authorities under the former system, local authorities are now in charge of managing the dwelling stock and handling the housing sector. Frameworks, structures, resources and experience to properly take over this task are, however, missing in most cases;
- (ii) *Privatization.* In general the privatization of dwellings has been seen as an opportunity to

"hand over" former State property to tenants, to turn them into "owner-occupiers" of condominium-type flats. The responsibilities of the new owners are often weakly defined, and institutional frameworks for a functioning community of owners hardly exist. Different forms of tenure within single buildings tend to completely paralyse decision-making and administration;

- (iii) *Deregulation.* A rigid system of State control left little room for private initiative on the housing market in the former system. At present, the lack of a legislative framework, land management, and housing finance systems, the need to adjust the supply-side structures to new demand patterns and the lack of purchasing power of households, make the emergence of a market-oriented housing sector a major challenge.

This present policy by Governments of "leaving the housing sector alone" will, according to the expert team, aggravate economic problems rather than support the transition to a market economy.

New housing construction is sharply down in most countries in transition, and the maintenance of the existing housing stock is seriously neglected. Consequently, the housing stock continues to deteriorate. The dwelling stock typically represents some 25 per cent of all reproducible national assets and yearly gross fixed capital formation in residential buildings amounts to roughly 5 per cent of gross domestic product on average in western Europe. Accelerated depreciation of the dwelling stock may therefore markedly reduce the net improvement of housing consumption in the future, or limit the growth potential in other economic sectors if repair and modernization are postponed.

By accepting the malfunctioning of the housing sector as one of the "minor problems" in transition another, closely related problem emerges. Distorted price structures, especially in the energy sector, where heating and electricity were treated as "free commodities", have, together with obsolete construction technologies and systems of energy provision, resulted in extreme overconsumption of energy in the housing sector with no incentives for energy saving. With energy prices increasing and reaching world market levels in some transition countries, running expenses for heating cause a major problem of affordability for the individual household and call for drastic measures. Whether energy is imported or exported, whether the affordability problem is left to the individual household or the burden is shifted to tax payments and State budget, the excessive waste of this

resource in the dwelling stock requires serious macro-economic consideration.

In conclusion, the performance of housing as an important sector of the economy is constrained by the present housing policies in economies in transition. Removing these constraints depends only to a very limited extent on foreign know-how or imported goods. Land,

often still in State ownership, labour capacity, building materials and technological know-how are readily available or should not be a major problem.

The removal of the constraints on the housing sector is therefore primarily a question of national priority. Giving housing an appropriate, higher priority should also contribute to accelerating the total transition process and making it more efficient.