

EFFICIENCY AND EFFECTIVENESS OF HOUSING POLICIES IN THE CENTRAL AND EASTERN EUROPE COUNTRIES

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Although few modern democratic governments have ever questioned the importance of the role of public sector in ensuring greater equality in housing consumption, in several EU countries in the 1980s and 1990s we saw dynamic reforms of housing policies, significant cuts in public housing expenditure and a move away from the supply-side subsidies towards less costly support through income-tested housing allowances (i.e. demand-side subsidies). If new public subsidies are introduced, they are usually accompanied by careful and continuous assessment of their *efficiency* and *effectiveness* made either by state administrations or by special audit institutions. While efficiency is traditionally viewed through the Pareto lens, effectiveness is understood as the degree to which the originally defined goals of state intervention are met, i.e., whether the funds were actually spent where they were allocated and whether those to whom they were intended were actually helped. However, the question of the effectiveness is not left solely to the will of the lawmakers or the governments. The *welfare economics* distinguishes between "vertical" and "horizontal" effectiveness. Vertical effectiveness measures the extent to which the subsidies are actually allocated to those who really need help. Horizontal effectiveness measures whether any of the needy are excluded from the program.

The objective of the paper was to describe briefly the state housing policy approaches in the six selected CEE countries and to detect through the country comparison at least some of factors that may influence the degree of their efficiency and effectiveness. The following countries were selected for the comparison: Bulgaria, the Czech Republic, Estonia, Poland, Romania and Slovakia. Though the countries selected represent a range of housing systems, population size, economic structures and geographic location, the conclusions are not generalisable to all CEE countries. The country selection has been made within the intention of the research project Local Government and Housing supported by the Local Government Initiative, Open Society Institute in Budapest, which allowed writing of this conclusive paper.

Selected countries are characterized, similarly as "old" EU countries, by a wide diversity of housing policy approaches. For example, though the public housing privatisation has been very popular in the region generally, the rules and scale of privatisation were very different in the individual countries. In Estonia, Romania and Slovakia large-scale privatisation of former public housing took place mainly because of the application of the tenants' right to buy. In Poland and the Czech Republic the scale and speed of privatisation were much more modest. Tenants in public rental housing did not receive the unrestricted right to buy and municipalities could decide for themselves the scale as well as the terms for privatisation. Bulgaria has a special status in this context, as the privatisation of public rental housing was also common practice during the Communist regime.

Supply-side subsidies directed towards new social/affordable rental housing construction are low in all the CEE countries analysed and, with the exception of Poland, municipalities are the only providers of rental housing for low-income households. Legal definitions of social housing are found only in Estonia, Poland and Romania. In all cases it includes some kind of municipal shelter for the most needy households. The understanding of the term "social", in connection with housing, is thus different in the CEE region than in the countries of Western Europe and it is probably closer to the perception of social housing in the USA. One of the most important contributions to rental housing reform in Poland concerns the introduction of a new type of social housing operator: social housing associations (Towarzystwa Budownictwa Społecznego, TBS). However, no similar process for the creation of non-profit independent social landlords cooperating with local authorities in new social/affordable rental housing construction can be found in the other selected CEE countries.

Housing allowances were introduced in Poland, the Czech Republic, Slovakia and Estonia. In Bulgaria, only a special type of energy allowance has been introduced. In all countries both, renters and homeowners, are eligible for an allowance. A common feature of the housing allowance in all the countries surveyed is its marginal significance. Its role is limited to income maintenance for the lowest income families, rather than being an effective demand-side housing policy instrument. The many restrictive conditions that apply (income ceilings) demonstrate this. Housing allowance models are affected by many other deficiencies that are fully described in the paper.

Another very important problem concerns the rent regulation system applied for "old" tenancies. In some countries (Czech Republic namely) the main principles of an old system of rent regulation inherited from the Communism (sometimes called "the first-generation rent control") has not been abandoned and/or reformed – this has far reaching consequences on efficiency and effectiveness of policy interventions. On the opposite, in Bulgaria and Estonia the central rent regulation system has been already abolished and in Poland largely reformed. This was allowed by successful decentralization/deregulation policies in those countries.

The analysis of the current state-of-art of housing policies in those countries allowed the author of the paper to come up with list of practical implications resulting from particular policies. Following are selected conclusions:

- The policy orientated towards the home-ownership model (large public housing privatization) leads to rapid revisualization of public housing, social segregation and increase in social problems in residual municipal housing stock.
- The policy orientated towards the home-ownership model creates a very sensitive problem with tenants in restituted (private rental) houses. Additional state subsidies are generally extended to compensate tenants in restituted houses from inability to participate in house privatization.
- The policy orientated towards rental model (avoiding large scale public housing privatisation), which is, however, not accompanied by decentralization/deregulation process, is connected

with relatively passive municipal housing policy and the establishment of a black market with municipal dwellings.

The main goal of the paper was, however, to evaluate countries from the point of view of efficiency and effectiveness of their housing policies and look for those factors that influence such a variation. The author set a list of indicators used for an evaluation of efficiency and effectiveness of both supply and demand side housing subsidies. Based on such criteria, Poland is viewed as the only country with a relatively high level of efficiency/effectiveness of demand- and supply-side subsidies. Poland has a legal definition of social housing, housing association legislation and subsidies are allocated mainly for new social rental housing construction among not-for-profit associations. Subsidy takes a form of qualified loan and covers only part of total construction costs. The allocation of new social flats is subject to means-testing and associations make regular income inspections of beneficiaries. "Old" rent regulation has been largely reformed and the housing allowance model uses actual housing costs limited by indirectly set ceilings (reflecting the regional differentiation in rents), while a gentle taper avoids the creation of a poverty trap. The total payment due for housing allowances is co-financed from both state and municipal budgets.

Similarly, the Estonian housing allowance model does not use notional costs and housing cost ceilings are set at a local level and therefore it provides more effective help to those in need than the Czech or Slovakian models. However, the high taper leading to poverty trap situation and exclusive state financing disadvantage the model in comparison with the Polish housing allowance model. On one side Estonia has already abolished the central system of "old" rent regulation and introduced the legal definition of social housing, on the second side the government supports only home-ownership purchase/construction regardless of income of applicant and did not introduce any type of non-profit housing associations.

Romania and Slovakia introduced the programs for new "social" rental housing construction but both countries did not introduce housing associations and they did not abolish "old" rent control. The Slovakian model of housing allowances does not reflect regional rent differentiation. Romania does not have any significant demand side subsidy and Bulgaria is the only country where no decisive supply- and demand-side subsidies are implemented.

The relative position of the Czech Republic is surprising. The Czech housing allowance model uses only notional housing costs. These costs have no regard for regional differentiation in prices/rents and do not reflect the higher level of market rents. Allowances are paid solely from the state budget. There is no legal definition of social housing, no legislation on housing associations and "old" system of untargeted central rent control is maintained both in public and private rental sector. The housing policy in the Czech Republic has been labeled as the least effective and efficient from all analyzed countries.

By comparing policy approaches and results from evaluation of efficiency/effectiveness of housing policies the authors stipulate conclusions, such as following:

- The most effective/efficient subsidies were implemented in a country where general policy orientated towards the rental model (limited public housing privatization) was combined with decentralization/deregulation in the rental sector of housing (Poland).
- The least effective/efficient subsidies appeared in a country, where policy orientated towards the rental model was combined with a low level of decentralization/deregulation in the rental sector (the Czech Republic).