

**A Unique Example of Research
Cooperation, Transfer and
Adaptation of Knowledge:
Introducing Housing Allowances
in Hungary**

Robert Buckley – Ray Struyk – Iván Tosics

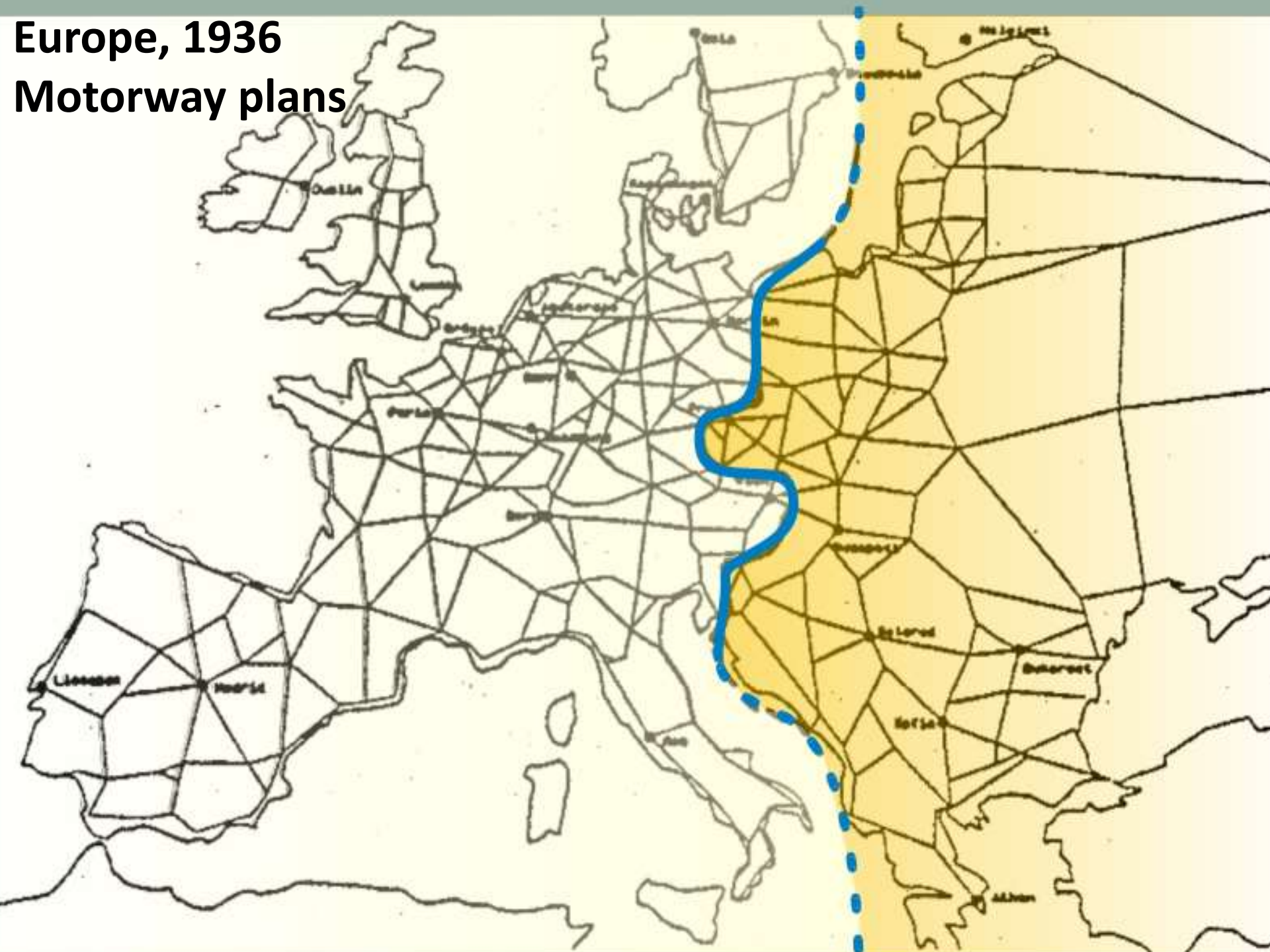
UAA'50 Conference

Washington DC

14 April 2022

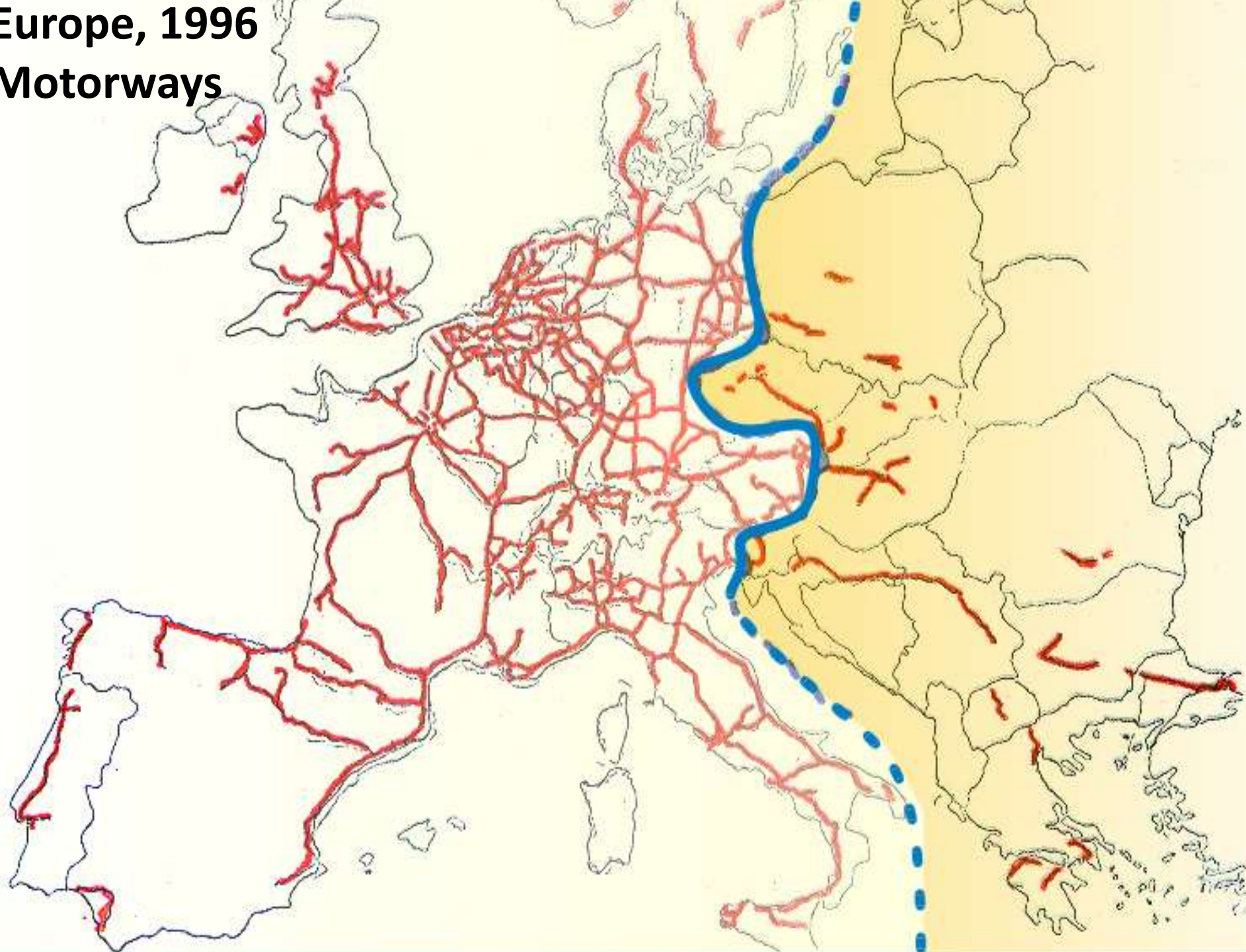
Europe, 1936

Motorway plans



Europe, 1996

Motorways



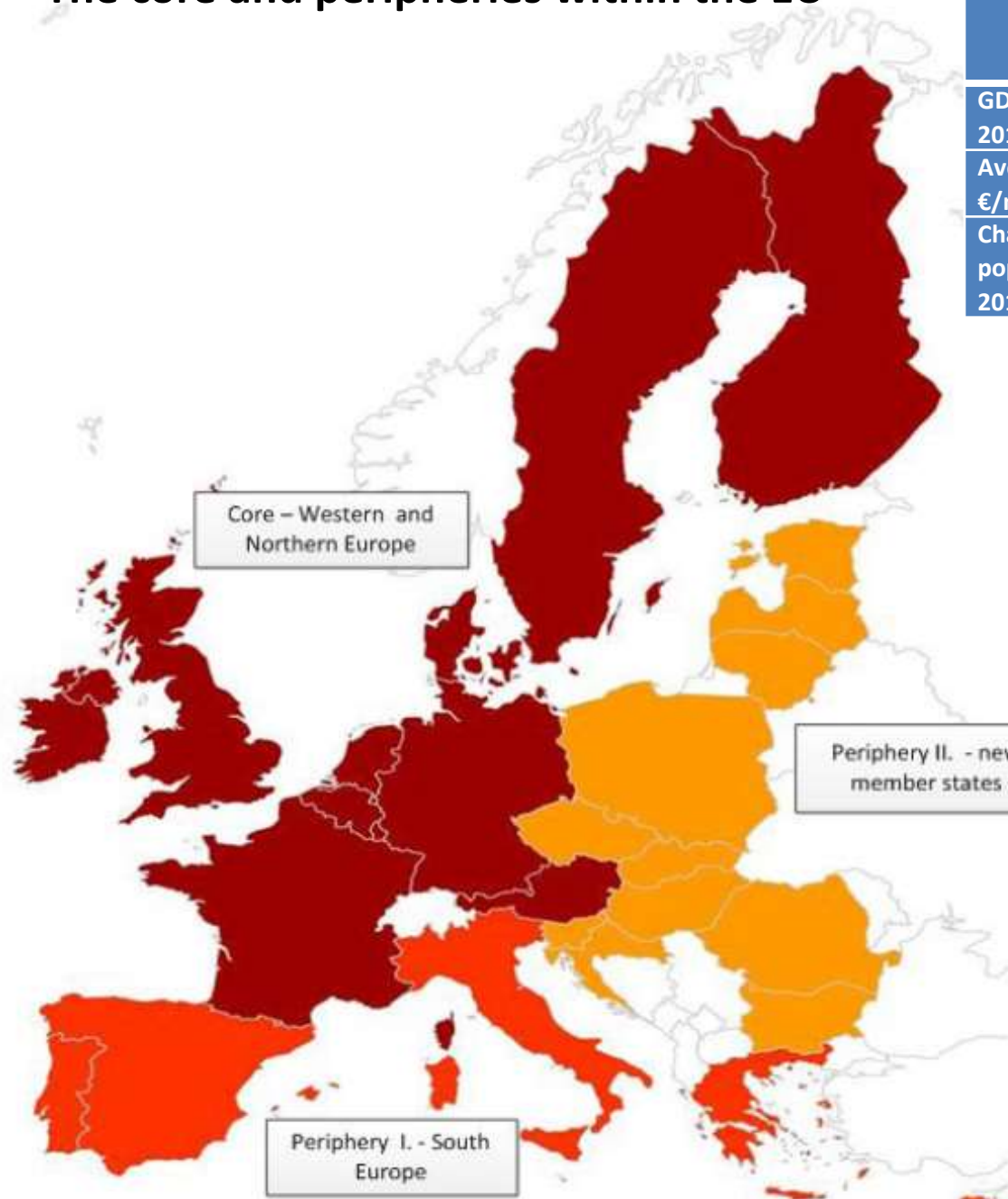
The core and peripheries within the EU



Source:
Policy Discussion Brief
for the European
Commission on housing
in EU member states.
Habitat for Humanity
International Europe,
Middle East and Africa
June, 2016

The core and peripheries within the EU

	Core Western and Northern Europe	Periphery I: Southern Europe	Periphery II: Eastern Europe
GDP/capita, PPP, 2013	43.400	33.100	24.700
Average salary, €/month, 2013	2.100	1.400	600
Change of population, 2011- 2013, per 1000 p	13.3	7.3	-6.5



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Change in country borders: the capital cities

1914	1921	1945	1992-onwards
Vienna	Vienna	Vienna	Vienna
Belgrade	Belgrade	Belgrade	Belgrade
Bucharest	Bucharest	Bucharest	Bucharest
Sofia	Sofia	Sofia	Sofia
Cetinje (Montenegro)	Budapest	Budapest	Budapest
	Warsaw	Warsaw	Warsaw
	Prague	Prague	Prague
	Tirana	Tirana	Tirana
	Tallinn		Tallinn
	Riga		Riga
	Vilnius		Vilnius
			Bratislava
			Ljubljana
			Zagreb
			Sarajevo
			Podgorica
			Pristina
			Skopje
			Minsk
			Kiev
			Chisinau

A story from 1989-1993

- The challenge: how to change the centralized socialist economies towards market direction?
- USAID and World Bank have set up a technical assistance program for the reform of the Hungarian housing sector.
- In this work researchers of the Urban Institute, the World Bank and Metropolitan Research Institute, Budapest worked jointly.
- All the speakers participated in the joint work and will give their insights about the analytical and political processes.

Structure of the colloquy

1. Intro: setting the scene
2. Housing Reforms in Hungary: The Broader Context (Robert Buckley)
3. Hungary: the challenge of restructuring the public rental sector (Iván Tosics)
4. Where Did Prior Research Affect the Design of the Hungarian Housing Allowance Program? (Ray Struyk)
5. Discussion around key questions: among the speakers and with the audience

Housing Reforms in Hungary: The Broader Context

Robert Buckley
Urban Affairs Conference
April 2022

My Talk Focuses on the Broader Policy Context

Transition Countries were Shifting from Centrally-Planned Systems to Market-based Social Welfare Systems

Many different versions of Central Planning Existed:

- From Goulash Communism – use resource costs as guides, e.g., Hungary,
- To Rationing by Supply – as in the Former Soviet Union, Romania.

These conditions matter for Housing Policy.

Policy Context for Transition, Also Heterogeneous

Ranged from “Big Bang” Approach of Leszek Balcerowicz and Jeffrey Sachs to

The Organic, slower Approach of Janos Kornai

At the Same Time Very Different Economic Contexts which Interact with Reform Approach

Russia, a Depression; Hungary a minor Business Cycle

In Russia, per capita income fell by 40 percent and continued to fall until 1998. Achieved pre reform income level only in 2007;

In Hungary, per capita income fell a few percent and grew to pre-reform levels within 3 years;

and

Today Hungarian per capita income exceeds Russia's by 20 percent and it has a much more equitable distribution of income.

Stylized Housing Policy and the Transition

Centrally-Planned Rationing

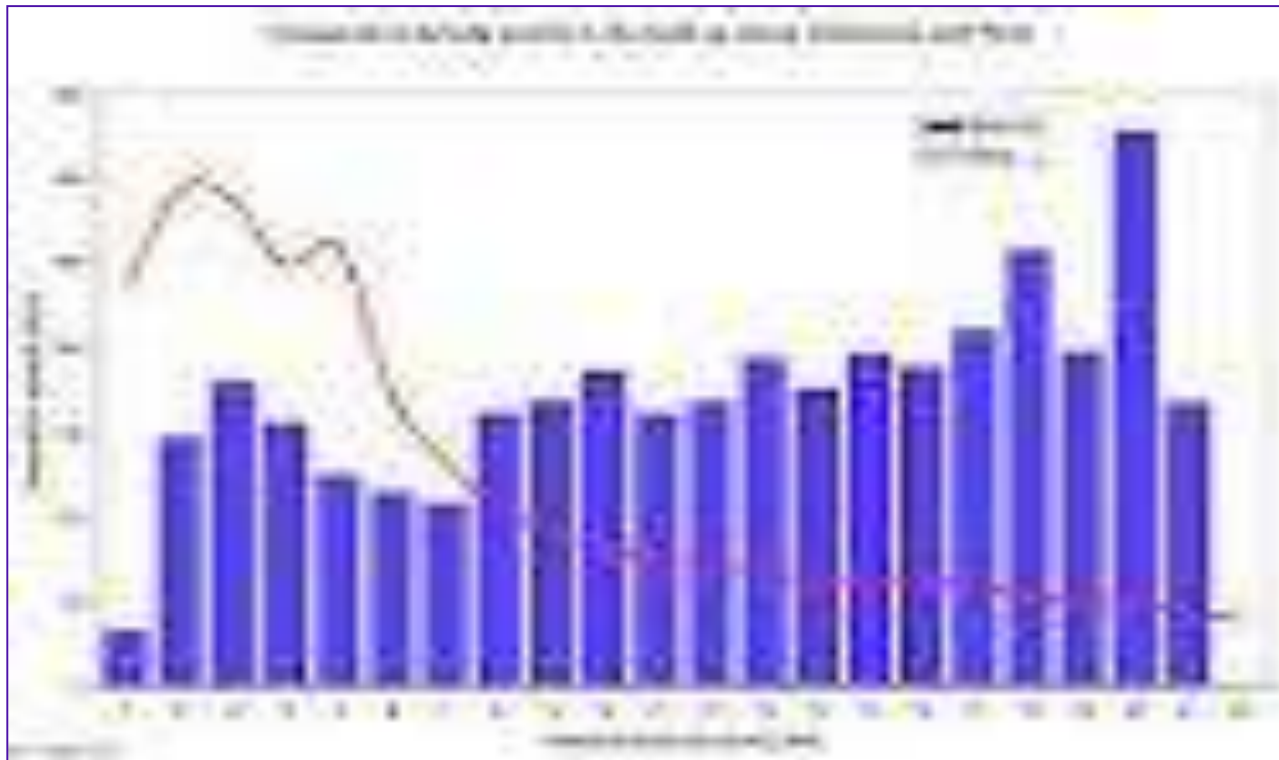
- Very High level of public housing;
in large, high rises
 - low cost for rents, transport, and utilities
- Serious land-use distortions;
- cities in the wrong places.
- almost exclusive public production.

Resource Cost Based Allocation

- More home ownership, but high
share of public housing;
- less serious land-use distortions;
- city location closer to “normal.”
- mixes in public/private production



Within City Misallocation: Donut Cities, Paris and Moscow



Distorted Land Markets; Moscow Outskirts



Across City Misallocation: Kidnapped Cities

Milan Kundera famously said that East European Cities were
“Kidnapped.”

One way to think quantitatively about whether kidnapping took place is
with Zipf’s Law on the Distribution of city Population;

Like words, and animal metabolisms, city populations across countries
tend to follow power laws.

Zipf's Law

Says that the second largest city is half the size of the largest and the third largest is one-third the size of the largest, and so on...

In Western Europe, and U.S., close to true. In Eastern Europe and FSU not the case;

In the 30 years since reforms began, Eastern European cities are increasingly integrating into European urban System.

How Were the Cities Kidnapped

The Trabant, typifies Trade Restrictions



Reform of Housing Subsidy System to Better Target those who Need Help.

Change in Explicit Ownership Rights to Homership Implied
Movement to Resource Cost-Based Policy;

It does not imply the Elimination of Subsidies; rather the use of the
Market to help Allocate them more effectively;

The old subsidy subsidized utilities, commuting, maintenance, and
rents and in return paid lower wages – a large implicit tax.

The Question: How to move to a more Market-Oriented System?

How to Protect the Poor from Large Rent Increases while Simultaneously Moving to Resource Costs to Guild Decisions?

How do you do this When many in the existing stock will be affected not only by rent increases, but utility and transpost as well?

Hungary: the challenge of restructuring the public rental sector

Iván Tosics

Urban Affairs Conference

April 2022

The socialist housing model

- In the socialist countries the responsibility for the social aspect of housing was meant to be assured through **state provision**.
- The East European housing model, however, functioned with **huge contradictions**. Public rental housing was usually around 1/4-1/3 of the housing stock (in cities this could reach 50-80%).
- The **rent level was very low, maintenance was very poor**.
- The new public rental units were allocated mainly through the **'merit' principle** to those who were higher in the hierarchy of the socialist society.

Countries	Public (social) housing	People living below poverty line
EU		
NL, S, A	25 – 35 %	10 – 13 %
D, F, UK	15 – 25 %	14 – 18 %
ES, P, EL	1 – 5 %	19 – 23 %
Socialist countries in the 1980s		
H	20 – 25 %	20 – 30 %
RO	30 – 35 %	

The socialist public housing sector: Szolnok

Szolnok: a middle-sized (80 th) Hungarian city with **typical public rental housing problems**

- Public rental housing around half of the total housing stock
- Rents generally low („affordable” without social subsidy system)
- Rents depend on the „comfort level”:
 - Type of **heating** (highest rent for district heating)
 - Existence of **toilet and bathroom**
- Housing **maintenance** extremely weak and badly organized: inefficient state organization in monopol position
- Outcome: **badly maintained stock** with very different „shadow market prices”

The main problems

- Rents from the rental housing sector **do not cover operating costs**
- A general rent increase is not possible because there are many **low-income tenant families**
- There is **no guarantee** that any increased rents will be used to renovate the housing stock

How to create a more logical local rental housing system?

The challenge to change local rental housing policy

In 1990, the city inherited a differentiated rental housing sector

- In the **center of the city** there were comfortable apartments in individually heated houses in good condition, with a rent of HUF 12 / sqm
- On the **outskirts of the city** in the prefabricated district-heated high-rise buildings, the rent was HUF 15 / sqm (counting as ‚all-comfort’ apartments)



SZÉCHENYI
VÁROS RÉSZ

Zagyva

MEGGYESITELEP

TALLINNVÁROS RÉSZ

PARTOSKÁPOLNA

PLETYKAFALU

Szolnok Plaza

KATONAVÁROS

TABÁN

NAGYVÁROS

Verseggy park

Tisza park

Tisza

CZAKÓKERT

Plétyka

Kőrösi út

Római Katolikus temető

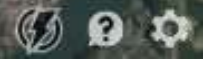
TISZALIGET

Kertész út

Debreceni út

Szolnok

ALMÁSI -





Jófogás



A model to restructure the public housing sector without privatization: Szolnok

1992-93, Szolnok: **experimental model** (USAID-URBAN INSTITUTE-MRI)

- Rents and utility prices should **express market values** while housing **subsidies should be linked to the social conditions** of households
- **Not the housing units should be privatized but the housing management companies**, creating competition in maintenance

Development of a totally **new local housing policy** regulation:

- Rents: **differentiated increase** with unchanged rents in the peripheral housing estate while 9-times rent increase in the best inner city locations
- Introducing **housing subsidies**: covering the ‚standardized‘ housing costs over 30% of household income
- **Housing privatization**: only on close-to-market price (if at all)
- **Housing maintenance**: creating competition to select maintenance company for two buildings; the new type of contract signed with the private company extended to the public maintenance company

The success of the attempt and the collapse of it

Successful implementation

- despite 9 times rent increase for best inner city housing **no complaints**
- creation of **housing subsidy offices** in the inner city and the outer housing estate with computerized links to PIT database
- **contract-based management** on competition basis: private company beats the public management company

Collapse of the programme after 1,5 years

- 1994: the **Right to Buy** has been introduced compulsorily by national law
- the **best inner city housing** (creating high rent revenue as the source for housing subsidy) **has immediately gone**, bought up by tenants

Housing privatisation – 1990-2006

	Public rental as a percentage of all dwellings		Estimated percentage privatised since 1990
	1990	Around 2006	
Estonia	61	4	93
Lithuania	61	2	96
Latvia	59	11	78
Czech Republ.	39	10	74
Poland	32	12	62
Slovenia	31	3	90
Slovakia	28	4	86
Hungary	23	3	87

The only successful transformation of public housing without mass privatization: Germany

After reunification in Eastern Germany **not flats but the management companies were privatized**

- Complex **building renewal**: systematic investments to solve all internal and external problems; new housing construction to finish the estates
- Total **rebuilding of public spaces** and development of new public functions (administrative, education, social, etc)

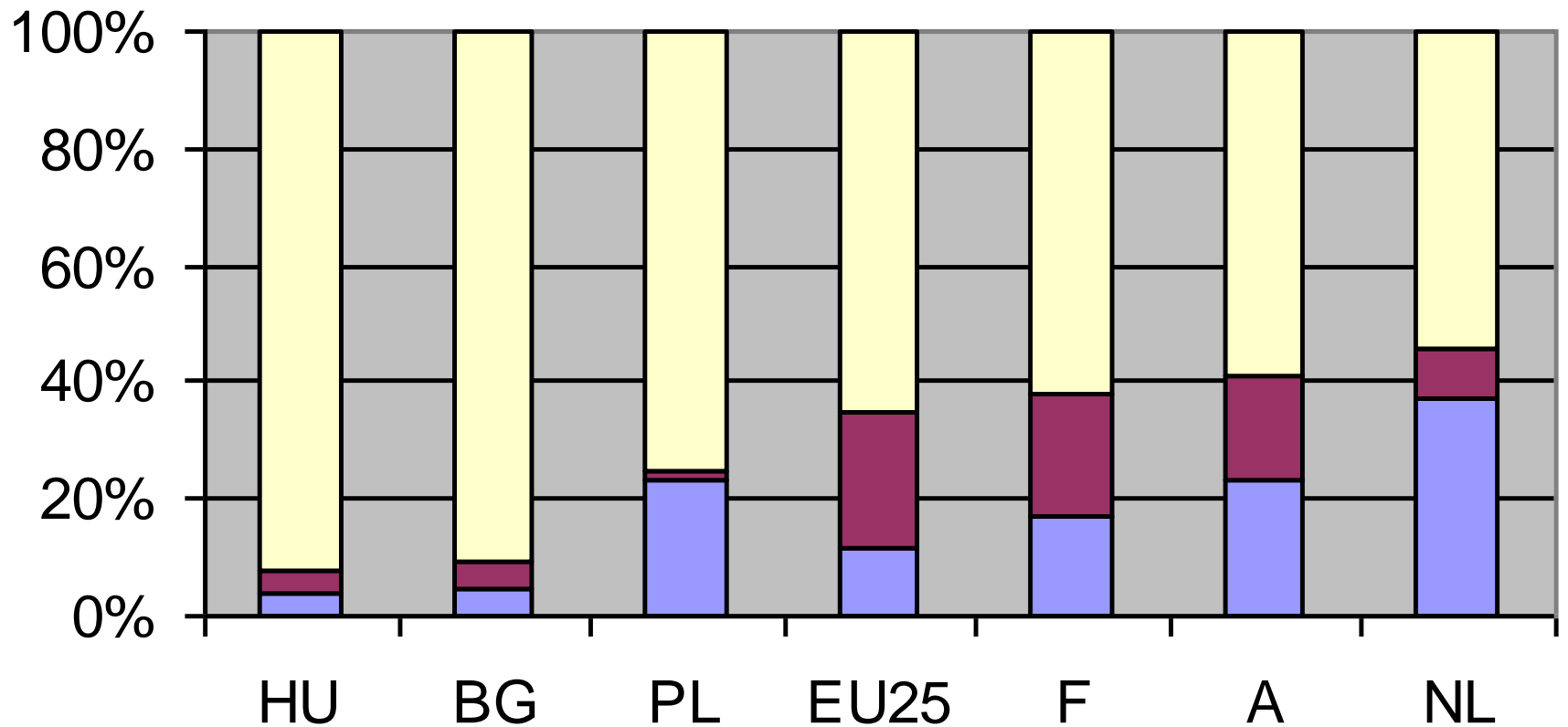
Federal state – state – local financing system for renovation of housing, carried out by the privatized management companies; **state provided means-tested housing allowances** to keep growing rents affordable







Tenure categories in EU countries



■ social rental ■ private rental ■ owner occupied

Countries	Public rental housing	Poverty rate
'Old' EU countries		
NL, S, A	25 – 35 %	10 – 13 %
D, F, UK	15 – 25 %	14 – 18 %
ES, P, EL	1 – 5 %	19 – 23 %
Transition countries		
CZ, POL	10 – 12 %	15 – 25 %
H, EST	3 – 4 %	20 – 30 %
ALB, BUL, ROM	1 – 3 %	30 – 40 %

Where Did Prior Research Affect the Design of the Hungarian Housing Allowance Program?

Ray Struyk
Urban Affairs Conference
April 2022

Discussion

Discussion around key questions: among the speakers and with the audience

- The **aftermath of the Szolnok model** – was the collapse unavoidable?
- What factors enabled the **exceptionally good cooperation** between US and Hungarian researchers?
- To what extent were Western **technical assistance programmes** to transition countries **successful** in the 1990s?

Thanks for your attention!

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