

## The possibilities and limitations of the state and local authorities' activities in resisting financialisation of the housing sectors in Central and Eastern European Countries

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**Abstract:** The liberalisation of the housing sectors in Central and European Countries since the beginning of this century, given the macroeconomic stabilisation of these countries, influenced the development of housing loans as a primary instrument of satisfying housing needs and wants, with large growth dynamics of the household debt. The main aim of this paper is to evaluate the possibilities and limitations of the state and local authorities' activities in providing adequate and affordable housing and resisting financialisation in the years 2000-2018. A growth in financialisation resulted partly from the fact that newly established households preferred in particular the ownership right, especially due to its limited scope in the period of the centrally planned economy. Furthermore, this growth came as a result of the fact that the segment of dwellings for rent – both private and social – did not work well. Significant commodification of dwellings, mass privatisation of the housing stock and the accompanying process of decentralisation in some countries, with a residual character of social housing and marginal private rental, as well as higher social stratification are the features of the contemporary system of provision for housing in CEEC.

**Keywords:** housing, liberalisation, housing policy, state intervention, Central and European Countries

### Introduction

The main aim of this work is to assess the capabilities and limitations of conducting housing policy in Central and Eastern European Countries. When it comes to the capabilities of housing policy, there are arguments justifying state intervention in the economy, transferred to the area of housing. On the other hand, as for the housing policy limitations, there are arguments against state intervention. The author makes two theses: firstly, what should be the priority in housing policy is the creation of institutional bases and stimuli in order to increase the participation of dwellings for rent in the housing stock, while the state should not take over the exclusive rights in this respect, and secondly, there must be principles in the social housing stock which create credibility of this segment and enable its efficient functioning.

Housing policy is one of the sector policies conducted both by central and local governments, engaging public and private entities as well as social organizations to attain its main, long-term goals within the housing area. These goals include: a) creating conditions for all citizens to purchase or rent housing stock, b) ensuring the availability of dwellings, and c) ensuring an appropriate quality of the housing stock throughout the period of usufruct (Cf. Lis 2008). Housing policy is also understood, in a broader

depiction, as major directions and methods of functioning of the state and other public institutions, as well as political and social organisations, which have an influence on housing and satisfying the housing needs (Cf. Andrzejewski 1978, Lis, 2011, Zubrzycka-Czarnecka 2016). From the macro perspective, housing policy is partly convergent with economic policy in terms of the functioning of housing, financial and capital markets. From the meso and micro perspectives, housing policy is an element of urban policies (Cf. Zubrzycka-Czarnecka 2011, 2012).

Detailed specification of the main aims of housing policy should refer to the housing needs of the citizens and the housing demand reported at a given time and place, whereas the manner of realising the “right to reside” has an influence on the social model functioning in a particular country (Cf. Lis 2005, 2017). The shape of the housing needs and their change in time and place is a key determinant of defining the main aims of housing policy. Determining the scale and character of the housing needs of a given community requires at least specifying the housing standard, including the minimum requirements in this respect, the structure and features of households. It shall be noted that assessing the housing needs from the perspective of housing policy is made externally, in an aggregated manner, and not by particular, individual households. Consequently, there may occur a discrepancy between the expectations of individual households and the housing needs of a society, identified at a local, regional, national or international scale. The expectations are individualised and refer to the perception of oneself, one’s own aspirations and social status which people want to gain (more in Levine 1995, King 2009). Levine (1995) stresses that expectations may and should be realised with the use of market mechanisms, whereas unsatisfied basic housing needs should become an area of state intervention. That is why the expectations should be closely connected with the possibility of choice, while satisfying the housing needs may include certain limitations of choice, depending on the wealth of particular economies or regions.

Taking into consideration the experiences of the CEEC countries, the common forms of realising social housing include above all housing for rent, and especially municipal housing realised by local authorities, social housing for rent, which is completely or partially dependent on local authorities, as well as social ownership housing realised by private investors with the use of public funds. Municipal housing is interventional or social in its character, most frequently understood as satisfying the housing needs of households with the lowest income. Dwellings created within municipal housing are identified, especially in the countries which have undergone economic transformations, as the low-standard stock, placed either in central or peripheral spheres of cities and inhabited almost exclusively by low income households. Making such low-standard districts inhabited by a certain group of people may cause social tensions in a given town, social exclusion, increase in the crime rate and degradation of urban districts. The above solutions serve as a strong argument for expanding the influence of social housing policy to other forms of housing and aiming at the complementarity of housing programmes with intervention conducted within economic, social and spatial policies. Social housing for rent may be realised by non-profit organisations, which many a time belong to local authorities, with the use of public subsidies. The access to the social stock for rent is most frequently limited to a certain target group. State intervention within social housing policy may also apply to collaborative housing, such as co-housing, housing co-operatives and other forms of collective self-organised housing (Czischke 2018). Housing intended for rent or sale is realised with an aim to obtain a profit by different investors. Without possessing adequate financial resources for realising a bundle of aims, the state looks for ways to include the private sector more and more broadly in providing and co-financing the social housing. In this

respect, of key importance is the issue of the scope and conditions (rules) for investors' participation in social investments and the phenomenon of information asymmetry, as well as negative selection, which occurs within this kind of partnership. The scope of indirect intervention of local authorities depends of the size of public funds assigned for social housing, but also on the ability to utilise market mechanisms for financing housing investments in order to realise the social aims. Taking into consideration the housing sphere in the CEEC countries, we may observe growing involvement of private investors as we move upwards the income segmentation of households, i.e. towards wealthier residents. As a result, it is necessary to exercise caution in housing policy while financing housing investments for wealthier members of the society with public funds.

### **Justifying the state's active policy within the housing sphere. Determining the capabilities to act**

Attaining the main goals of housing policy in contemporary market economy requires some activities undertaken by the state. The state's main roles are: ensuring proper functioning of the housing market in the areas where it is economically efficient, correcting market failures, ensuring social justice and aiming at social, financial and political stability.

Contemporary state activity in correcting housing market failures should regard providing complete information about the functioning of housing markets, shaping the prices of particular segments of the real estate market in the long run, the number of transactions made, geographical placement of transactions, potential for development of particular housing markets. The state's actions should lead to reducing the expectations concerning further growth in real estate prices, especially at the ascending phase of housing cycles. Given such a high level of financialisation of the housing sector, it is yet another accelerator for further growths in real estate prices and separation of housing markets from their foundation of a long-term and stable growth.

Another premise of state intervention is an increase in social justice, which determines the allocation and redistribution of the housing stock. Social justice may be interpreted either from the perspective of the equality of chances and their compensation from the very beginning (horizontal justice) or from the perspective of the redistribution needs (vertical justice). One of the key aspects of the former approach is an equal access of all citizens to 'market gambling', even though 'the game' may bring different results to the participants, depending on their capacity and the amount of work they have done. The latter approach emphasizes the necessity of compensating the results (income), irrespective of the capacity or the amount of work performed by the citizens. In market economies, both depictions of social justice may be found, yet they function to a different extent and in different configurations. This serves as a crucial criterion for determining the welfare state models, including the housing system models.

The concept of social justice (horizontal and partially vertical) within the housing area concerns above all two aspects: aiming at social cohesion and shaping conditions to fulfil housing needs of young people who enter the labour market for the first time. Creating the conditions for shaping social cohesion by the state follows the assumption that one's surroundings and housing conditions serve as one of the elements which determine the citizens' chances for success in their lives.

The concept of vertical justice in the housing area is closely connected with the realization of the so-called social housing policy set apart from housing policy. The realisation of the main housing policy goals requires specifying particular instruments with reference to the homeless and housing-excluded,

people with a low-economic status, particular social groups (including the disabled, long-term unemployed, single aged people, families with many children, single-parent families, emigrants and refugees, ethnic minorities, people threatened with eviction onto the street, people living in dangerous neighbourhoods, young married couples, students). However, it has to be highlighted that the criteria allowing for the identification of sensitive groups vary considerably according to the country and tend to change with time. The basic criteria included among all income, age, marital status, health condition, social class, race, place of residence. The main aim of social housing policy is to fight against homelessness and housing-exclusion.

What shall be highlighted while realising the conception of horizontal justice is the fact that the state's actions are concentrated within the social housing stock (Przymeński and Oliwa – Ciesielska 2014; Suszyńska and Rataj, 2017, Szelągowska 2011). Proper functioning of this stock requires specifying and following by the state both the principles of accessing the stock and the conditions determining the necessity to leave the stock, estimating the households' capability to rent or purchase dwellings in the social stock, as well as defining the scope of legal protections of the tenants and owners of the social housing stock. At the same time, it shall be noted that the principle of allocating the social housing stock on the basis of the income criterion will not always reflect the most "urgent" housing needs (Lis 2011). Such a situation may lead to omitting those individuals who have serious housing problems at an income which is temporarily above the criterion of accepting into the stock or choosing (by the administrators or owners of the social stock) those persons from the waiting list who are characterised by the lowest risk of failing to fulfil one's duties as a tenant. What shall be highlighted at the same time is the fact that implementing the criterion housing needs as a supplement to the income criterion should entail imposing the principles of inhabiting the social stock (including the conditions, limitations and requirements) on the beneficiaries of state support, together with the possibility of excluding those individuals who fail to comply with the principles or relocate such individuals to lower-standard dwellings.

The last highlighted premise for state intervention in housing concerns ensuring sustainable development of the economy. Housing crises may extend and deepen the impending economic recession. They may also lead to banking crises. Ensuring sustainable development of the housing sphere makes it possible to overcome economic recessions in a less drastic way, taking much less time. Thus, contemporary housing policy becomes one of the important areas of economic stabilisation (Lis 2015). It seems justified to describe this premise in more detail.

The process of marketisation of the housing sphere developed incredibly dynamically since the 1980s in Western European countries, and since the 1990s in the CEEC countries. The state (government and local authorities) began to withdraw from direct intervention in the housing sphere, limiting themselves to satisfying the housing needs of the poorest or identified sensitive groups, and especially families with many children or first-time buyers. The institutional surroundings, including the actions of the Directorate-General for Competition in the European Union, were greatly unfavourable of wide state support in the housing sphere in the first decade of the 21st century. An example of this were, among others, explanatory proceedings concerning the Netherlands and Sweden for with regard to their overly developed system of social dwellings (Lis 2018). The global financial crisis of 2008, which subsequently turned into an economic crisis, and in some EU countries also into a debt crisis, exerted an incredibly strong impact on the changes in the assessment of the state's actions within the housing sphere. Social housing is becoming an increasingly important part of European economies, more and

more accepted by EU institutions. A strong connection between the global financial system and local housing markets, which has been created over the last decades, resulted in the fact that social stability in particular countries is closely related to balanced development of the housing sphere (Lis 2015b, 2015c). It has been proven that the greater the participation of ownership dwellings in the housing stock, the greater the instability of the housing sphere of a given economy (Lis 2015a). An explanation for this kind of interdependence occurring in 1990-2014 in the CEEC states was an extremely strong connection between the real sphere and the financial sphere at that time. The financial system strengthened the force of its influence alongside its development. Thus, the financial depth increased considerable, which may be corroborated by the fact that the higher the level of granted loans was compared to the GDP in a given country, the higher the participation of less wealthy persons in the credit structure was (Lis 2012). Another issue concerns the available and relatively cheap money in the housing sector, and the threats which it entails. The influence of cheap housing loans, which is very dangerous yet positively assessed from the perspective of an individual household, accelerated the growth dynamics of housing prices extremely fast. It results primarily from the fact that an increase in the real estate value becomes an additional benefit for those who had a chance to take out a mortgage loan to purchase a dwelling. Obviously, only these benefits are generated together with growing transactional prices for housing real estate. Increasing the participation of dwellings for rent (applies to rent based on market principles) in the housing stock breaks this dependence. The condition is to change the structure of the housing stock, and not just new housing institutions functioning within the housing surplus.

### **The state's weaknesses within the housing sphere. Determining the limitations to act**

Research on housing systems often omits such limitations of the normative ('classical') theory of housing policy as the nature of entities and the behaviour of politicians (Acocella 2002). The housing system does not consist of uniform entities, i.e. the owners and tenants, and the politicians and officials who take housing-related decisions are not anonymous. Particular entities form groups based on similar interests, needs or opinions, and they operate through their organizations – interest groups, lobbies, political parties, in order to ensure the realization of their own preferences, irrespective of and even at the cost of other groups. Politicians, on the other hand, express their own preferences and interests, and their main aim is reelection for another term of office (Nordhaus 1975).

On the basis of the above limitations concerning the normative housing policy, one may articulate the guidelines for limiting state intervention, especially in the area of direct interaction, i.e. the social housing stock. The major accusations concern the process of planning, designing, financing and realizing social housing investments, as well as managing the social housing stock that has emerged. Duncan Maclennan and Alison More (1997) discuss four main problems resulting from the state's engagement in the housing area as: preferential unadjustedness, excessive costs of realizing an investment, inefficient exploitation of the stock and politicising the process of allocation and management of the social housing stock.

In the CEEC countries, it is noticed that social housing is becoming unadjusted to the housing needs of future tenants (for example, social dwellings are located on the outskirts of towns). Furthermore, the social housing stock, in which the basic principles of admission and departure have not been specified, becomes unadjusted to the changing structure of tenants over their course of life. On the other hand, lack of market mechanisms in terms of the investment process in social housing resulted in obtaining the costs of producing 1m<sup>2</sup> of residential usable area which are higher than their market value. A non-

market price for the housing stock and non-market rent rates do not lead to an optimal use of social dwellings.

In relation to CEEC, the weakness of housing policy is also the creation of an imbalance between the ownership and rental of the housing stock. The subsidy regime and privatisation led rational households to prefer homeownership over municipal and private rental housing (Csizmady *et al* 2017). Of course, an excellent factor strengthening this imbalance is the financing of the housing sphere so typical for CEEC countries.

## **Conclusions and discussion**

The main aim of the work has been to assess the capabilities and limitations of conducting active housing policy in contemporary CEEC countries. What should be the priority in housing policy is the creation of institutional bases and stimuli in order to increase the participation of dwellings for rent in the housing stock, while the state should not take over the exclusive rights in this respect. In general, housing policy should be incorporated into market mechanisms, and not supersede or replace them. Of crucial importance in housing policy, especially in the face of cheap money available to a part of society, excluding the other part of the inhabitants, is to provide information to market participants about the development of housing markets, market cycles, shape of prices and rent rates, possibility of renting dwellings and consequences of purchasing dwellings.

The state's actions should be arranged depending on a segment of influence reflecting the urgency of objectivised housing needs, with limitations to public funds necessary to finance the needs, from primary instruments supporting the homeless, to secondary instruments supporting those who have a court ruling on eviction awaiting a social dwelling, to third-rate instruments supporting persons with low income, to fourth-rate instruments supporting selected sensitive groups. Within the primary instruments, the key aim should be eliminating the phenomenon of long-term homelessness (Cf. Przymeński 2001, Rataj 2018). This elimination may take place via realising the process of bringing people out of homelessness. The state's actions cannot be limited to ensuring an adequate number of places in lodgings and shelters for the homeless. Within the secondary instruments supporting those who face court-ruled eviction, awaiting a social dwelling, the state should act in a very determined way and on a large scale. Unblocking the queue for social dwellings is a fundamental condition for the functioning of a mass market of private rent. Within the third-rate instruments supporting poor persons, it is of key importance to define the principles of leaving the housing stock, after specifying the criteria for its residence as well as the solutions in order to reduce rent arrears. The social stock is not allocated for the rest of the tenant's life; it is supposed to play a motivational role. It is necessary in the social stock to implement and execute the principles of reducing troublesome neighbours, as well as a firm and restrictive action against the asocial tenants. The direction of increasing the patency of moving from social dwellings to municipal dwellings (changes in regulations from the social stock to social rent), which gives social tenants a possibility of social advancement and increasing the standard of dwellings (see more in Rataj 2013, 2014, 2018). It is important to resolve the issue of those who are in a difficult housing and living situation, without their own fault, those who should not be degraded by being placed in extremely sub-standard dwellings, worse than other social dwellings (Przymeński and Oliwa – Ciesielska 2014). It is of vital importance to improve the quality of the local space and public services, the environment in the immediate vicinity of residential buildings and to build a community, create a system which would involve the tenants in decision-making within this stock (Tobiasz-Lis *et al* 2019).

Particularly urgent become the actions for increasing the quality of the gmina's housing stock, bringing the social and municipal dwellings to contemporary norms concerning the housing culture. Furthermore, it seems justified to resolve the technical problem of maintaining the municipal stock within the area of implementing in housing stocks the solutions concerning the adaptation to climate changes, including low-emissions and intelligent management. Within the fourth-rate instruments supporting vulnerable groups, a comprehensive approach to social groups with special needs should be developed, in particular: people ending their stay in child care homes, large families, seniors (Hrastet *et al* 2019), disabled, immigrants, refugees. There is also a lack of complex solutions for students and graduates.

Finally, it should be emphasized that housing investments do not change the long-term trend of economic growth, but may increase the amplitudes of fluctuations in cyclical economic variables. The period of housing deficits in many housing markets in the CEEC countries has come to the end and there is no longer a unique "security buffer" (Cf. Lis 2018). The housing cycles will have more and more amplitudes, which may lead to deepening economic crises if the housing sphere is not offset by the functioning of an efficient segment of rental housing.

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