Janusz Szyrmer

Housing benefits policies in Central European countries

Prepared for the project:
Preparation of the strategy for
social benefits monetization reform in Ukraine

Polish aid

The Project is co-financed by the Polish aid programme 2008 of the Ministry of Foreign Affairs of the Republic of Poland.

CASE –
Centre for Social and Economic Research
September 2008

Housing benefit policies in Central European countries

Prepared for the project:
Preparation of the strategy for
social benefits monetization reform in Ukraine

Polish aid

The Project is co-financed by the Polish aid programme 2008 of the Ministry of Foreign Affairs of the Republic of Poland.

Housing benefit policies in Central European countries

In this report we are compiling information on housing benefit policy in Central European (CE) countries. This group encompasses the former socialist countries that joined the European Union (EU) in 2004: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. In the first section we present housing allowances granted to low income families in the Slovak Republic. In the second section we describe two housing benefit reforms which were implemented in Hungary during the last two decades as part of transition-related reforms after 1989. The third section contains a comparative overview of housing subsidies in five post-socialist CE countries; in addition to Slovakia and Hungary, the Czech Republic, Poland, and Slovenia are also included. In the subsequent section, we present several tables drawn from the "Housing Statistics in the European Union, 2004" database in which the CE countries are compared against a number of other EU countries ("old" EU members) in the area of public/social housing policies. Finally, the last section presents some conclusions produced by our analysis.

1. The Slovak experience[1]

Slovakia implemented a new housing allowance (HA) program in 2000. This was the country's first demand-side formula-based oriented program in housing. Its aims were specified as follows:

- Protect lower-income households from paying an excessive share of their income toward housing costs (help households to afford rent/utility price increases)
- Provide economic incentives to consume the right amount of housing (discourage people from using large and expensive apartments and houses at a cost to the taxpayer)
- Fully monetize support to households (an HA becomes a monthly cash payment made directly to low-income households to help them afford adequate housing)
- Integrate the rental housing market by bringing the rents in the public (social) rental housing sector to the level of the rents in the private sector
- Provide greater revenue for needed repair and maintenance of housing in both the public and private sectors
- Move away from supply-side housing subsidies which cause inefficiencies (make HA a demand-side subsidy, paid directly to consumers, aimed at increasing the supply of housing indirectly by giving consumers a greater ability to maintain and invest in housing)

[1] Prepared based on M. Mikelsons, P.A. Tatian, and J. Zapletalova, "Housing Allowance Program—Slovakia", The Urban Institute, Washington, DC: 2000; J. Zapletalova, M. Antalikova, and E. Smatanova, "The role of self-government in housing development in Slovakia, in: M. Lux (Ed.) Housing Policy: An End or a New Beginning?, Budapest, Open Society Institute: 2003; J. Zaplatelova, "Housing Subsidy System in Slovakia", 2004, www.urbaneconomics.ru/eng/download.php?; and J. Hegedus and N. Teller, "Development of the Housing Allowance Programmes in Hungary in the Context of CE Transitional Countries", European Journal of Housing Policy, Vol.5, August 2005.

- Increase the mobility of households by making HAs portable, i.e., allowing them to move with the household
- Stimulate the production of housing by increasing the ability and willingness of households to pay for housing and the private sector to deliver

The law introducing the new HA program was passed by the Slovak parliament in October 1999. The law provided for a means-tested system of housing assistance granted to all households in the country. Households qualify for an allowance if their income is below a certain level, e.g., a four person household qualified for an allowance if their monthly income (excl. the HA) was less then 8000 SKK, or about 80% of average monthly salary. The amount of the benefit is determined by a formula that takes into account the size of the household, its income, the cost of adequate housing, and the percentage of income that a household should be expected to spend on housing.

Coinciding with the expected adoption of the HA program, the Government partially deregulated rent and utility prices, which in January 2000 increased by 20-30%.

This new social support program incorporates a means-tested housing allowance, available to all households in the country that are eligible in accordance with the following formula:

$HA = AHC(n) – (r*Y), r = 0.29, HA > 50 SKK = 1.3 USD$

Where:
HA = HA benefit paid monthly to the household directly
AHC(n) = adequate housing costs, representing the monthly cost of reasonable and satisfactory housing, including rent and utilities, for a household, as stipulated by the law
n = number of household members

The AHC(n) is based on the size of the household and was set at the following levels at the start of the HA program:
AHC(1) = 1410 SKK (about 40 USD, or one-seventh of average monthly salary)
AHC(2) = 1.24*AHC(1)
AHC(3) = 1.48*AHC(1)
AHC(4) = 1.72*AHC(1)
…
AHC(i) = AHC(1) + 0.24*AHC(i-1)

r = coefficient representing the maximum fraction of income a family is expected to spend on its housing, set at 29%
Y = total monthly income of the household, based on the calendar half-year preceding the calendar half-year during which the household applies

A household may receive a housing allowance payment only if its monthly benefit is 50 SKK or more (about 1.5 USD).

In addition to the income formula, to become eligible for HA, a household has to satisfy several other criteria:

- The applicant must be a legal resident of the housing unit, either owning or renting (but is ineligible if he/she is only subletting a unit)
- The unit must be his/her permanent residence (the applicant needs to provide proof of legal residency for himself/herself and for all other household members)
- He/she must have paid all applicable housing costs in full (rent, repair and maintenance fees, utilities, property taxes, etc) for the preceding six calendar months

The HA is paid directly to the household and is not tied to a particular housing unit. Housing allowances are portable, meaning that the household keeps its benefit even if it moves to another dwelling. Housing allowance recipients therefore have the freedom to find their own housing and are responsible for negotiating leases with landlords and making all other arrangements for the provision of their housing. In principle, housing allowances should allow for more mobility of households, but the condition of the housing market, the design of the program's parameters (the extent to which the allowance contributes towards housing costs) and other factors also influence household mobility.

The HA system is intended to operate in such a way that households are not discouraged from official employment, since for each additional 1 SKK of income a household earns, its HA is reduced only by 0.30 SKK. Thus, if for example AHC(n) = 3000 SKK, then:

- for a family with an income of 1000 SKK, HA = 2700 SKK
- for a family with an income of 5000 SKK, HA = 1500 SKK
- for a family with an income of 9000 SKK, HA = 300 SKK
- for a family with an income of 9834 SKK and more, HA = 0 SKK

The system also rewards saving on housing-related expenditures. If a family decides to move to a cheaper apartment, its HA will not be reduced and it may save extra money for its non-housing spending.

Between 2000 and 2003 the amount of HA granted to households almost doubled. In 2003 another reform of the HA system was introduced. The number of households eligible for HA was curtailed. Since 2003 only the households in "material destitution" continued being eligible. The criteria for eligibility were significantly tightened.

The Slovak system is considered one of the best HA arrangements because it stimulates housing expenditure savings and does not discourage from employment. The "flatness" of the AHC is its strength and weakness at the same time. The HA is simple and transparent, easy to calculate, and the same for all households of the same size earning the same income. As such, it does not distinguish between different locations, so a family living in an expensive metropolitan area such as Bratislava is eligible for the same benefit as an equivalent family (in terms of size and income) living in a less expensive small town. While this should not necessarily be viewed as a drawback of this system, awarding the same benefits to equivalent families living in (1) their own housing units,

(2) social housing units, and (3) market rental housing units becomes a problem. The housing costs incurred by market rental dwellers are much larger then those of the other two groups of households. The system places the market rental dwellers at a significant disadvantage.

2. The Hungarian experience[2]

In Hungary, during the post-1989 transition, radical systemic changes occurred in the housing sector. Between 1990 and 2000, 80% of the public housing stock was privatized (transferred to its tenants). As a result, the share of the non-private sector shrunk from 23% in 1990 to 4% in 2001 (Table 2.1).

Table 2.1 Housing ownership in 1990 and 2001

	1990	2001
Total number of units, thousand	3,689	3,724
Total, %	100	100
Public rental	23	4
Private rental	3	4
Owner occupied	74	91
Other		1

Source: Heged and Teller, 2005

In the process of systemic transformations, many households began facing an "affordability hardship". The costs of building maintenance and housing-related services such as water, energy, heating, garbage collection, etc., grew much faster than household incomes. The latter significantly diminished in real terms for many households and the share of income spent on housing was rapidly growing. Between 1990 and 2003, it increased from 11% to 21%.

2.1 Hungary housing utility allowance

In 1993, The Hungarian Social Act was introduced, which among other things stipulated a housing support system intended to help low income households with their housing bills. A housing utility allowance (HUA) was introduced, meant as income support (rather than as a demand-side subsidy, the latter being granted to households in many Western European countries in order to help low income families to access housing and to stimulate the development of the housing sector). In Hungary, similarly to other CE

[2] Based on: J. Heged and N. Teller, "Development of the Housing Allowance Programmes in Hungary in the Context of CE Transitional Countries", European Journal of Housing Policy, Vol. 5, No. 2, 187–209, August 2005; M. Lux (ed.), "Housing Policy, an End or a New Beginning?", Open Society Institute: 2003.

countries, this system was aimed at helping families afford the rapidly growing utility costs.

The 1993 HUA system was highly decentralized. It was managed by local governments with little involvement of the central government. In 2004, it was replaced by a more centralized system, which was intended to improve the coordination of benefits provided by the central government and local administrations. Both programs were not meant to provide rent support but rather to help pay for utility bills. In parallel to the HUA system, many local governments began increasing rents in public housing to improve cost recovery and began introducing diverse rent allowance (RA) programs.

The 1993 HUA scheme provided financial support to all households whose total housing-related expenditures were higher than 35% of their incomes. The detailed rules for this program were defined by local governments (the size of allowance, eligibility criteria, etc.). Yet, by and large, the HUA subsidies remained at a very low level (about 1.5% of total social benefits). In most cases, households with incomes less than 150% of a social minimum (set by the central government) became eligible. The eligibility was also contingent upon the floor space of dwellings and in some cases on standards of apartments (such as access to utilities). A variety of formulas to calculate the HUA were used:

- Standard gap formula, with minimum and maximum limits; according to this formula a household is required to cover a specified fraction of total housing costs while the residual is covered by the HUA
- Residual income formula: the HUA is tied to the income that is left to a household after all its housing-related costs are covered
- Disposable income formula: the HUA is tied to household disposable income
- Ad hoc formula: the allowance is granted according to some arbitrary criteria and only loosely (if at all) depends on household income

The allowances were highly differentiated in different locations. They ranged from 4 euro to 48 euro per month and covered an average of 8% of housing utilities expenditure.

In 2004, a new program was introduced. The main reason for the termination of the previous program was its political weakness and the unjustified diversity of regional arrangements. Under the 1993 system, in most regions the political support for benefits for low-income households was very weak, because of the strength of diverse local powerful interest groups competing for scarce budget resources. In most cases the HUAs were kept at very low levels.

The new program significantly reduced the discretionary powers of local authorities (although in some regions, in addition to the centrally funded HUA some supplementary housing support was also provided). The eligibility criteria and the amounts of HUA were set by the central government at the same levels for the whole country (similarly to the Slovak system described above). Its principles are the following:

1. Eligibility: households with per capita income less than 150% of the social minimum (in 2004, it was 23,200 HUF, approximately 94 euro) and for which the ratio of the maximum housing cost (MHC) to household income is higher than 25%; the HUA is provided for both owner-occupied and rented housing units

2. Financing: 90% is financed by the central budget, 10% is financed by the local budgets; moreover in some localities there are additional allowances financed entirely from local budgets

3. Calculation of housing utilities allowance (HUA):

HUA = r*AHUC

AHUC = adequate housing utilities cost, defined by law, based on the size of the dwelling unit, in square meters, and the household size, number of persons (same standards for all households in the country)

r = fraction of AHUC (10-20%, for eligible households)
r = 0 for households with income per capita higher than 150% of social minimum
r = 0.1, if per capita income is equal to 150% of social minimum
r = 0.2 - 0.1*(Y - SM/2)/SM, if per capita income is between 50% and 150% of social minimum, SM = social minimum set by law
r = 0.2, if per capita income is 50% of social minimum or lower

For eligible households, HUA does not depend on actual costs of housing. This creates an incentive for households to save on their housing-related expenditure. The allowance only loosely depends on household income. It does not differentiate among the households with incomes lower than 50% of the social minimum due to the assumption that in most cases, the poorest households generate incomes from activities in the informal sector and it is not possible to establish the actual value of this income.

As in Slovakia, both the strength and weakness of the system is the fact that the HUA does not depend on location (urban versus rural), type of housing (multi-unit buildings versus single family houses), or type of heating. This rule does away with the large inequities created by the 1993 allowance system, but at the same time it fails to account for the large differences in housing costs incurred by households in Hungary.

2.2 Hungary housing rent allowance

In Hungary, rent is not regulated. Yet, the majority of local governments keep rents low in the public housing sector, which does not cover the full administration and maintenance costs. The rents remain low for at least two reasons: (1) many households could not afford paying higher rents; and (2) increasing rents is politically sensitive and therefore difficult to achieve.

Therefore few local authorities decided to increase rents. At the same time, they began granting a rent allowance (RA) to low income households. These were purely local initiatives, which in most cases followed housing privatization programs. They were neither supported nor regulated by the central government.

2.2.1 Examples of RA

In **Szombathely**, the rent increase introduced in 1997 was compensated by an RA provided based on two criteria: (1) Household income, and (2) household size. About 60% of public housing tenants received allowance averaging 20% of rent.

In **Nyiregyhaza**, in 2003, after rent hikes in public housing (from136 HUF per sq.m to 299 HUF per sq.m, or from 0.5 euro to 1.2 euro), an RA was introduced to households that pay more than 10% of their incomes for rent, in accordance with the following formula:

$RA = ASR - 0.1*Y + T$, $RA <= RENT$, where:

RA = rent allowance
ASR = adequate social rent (rent for apartment in a “socially accepted size”)
Y = family income
T = supplementary allowance to selected households (e.g., single parent households with children and one person households)
RENT = actual rent paid by the household

Only tenants in public housing are eligible.

Thus, the rent for an apartment of 50 sq.m amounts to 14,950 HUF. A family of four, for which an ASR was set at 20,000 HUF, with no supplementary allowance (T = 0), and a monthly income of 50,000 HUF, became eligible for a rent allowance of 14,950. If the family income grew by 50% (by 25,000 HUF), to 75,000 HUF, then its allowance would diminish to 12,500 (by 2,450 HUF). If its income tripled to 150,000 HUF, its allowance would shrink to 5,000 HUF. Families with incomes reaching or exceeding 200,000 HUF (about 800 euro) lose their eligibility for the allowance (RA = 0).

The Nyiregyhaza RA program provides a good model for the “monetization reform”. As a result, the average allowance to income ratio became 10%: 32% for the lowest income quintile, 18%, 11%, 7%, and 4% for the subsequent income quintiles, respectively. Thus the targeting of this program was considered satisfactory. The RA subsidies were entirely financed from the rent increase. The lowest household income quintile received a subsidy of 32% of their pre-RA income.

3. Housing benefits in CE countries: housing allowance (HA)[3]

[3] Prepared based on J. Hegedus and N. Teller, “Development of the Housing Allowance Programmes in Hungary in the Context of CE Transitional Countries”, European Journal of Housing Policy, Vol.5, August

In the majority of Western European countries, the HA was introduced in the 1960s aiming at shifting state subsidies from the supply side to the demand side and at deregulating the housing market.

In the post-soviet CE countries, the HA was introduced in the 1990s as a key factor to help restructure the public rental sector in order to increase rents to market levels or cost-recovery levels.

In all CE countries the housing tenure systems and HA programs continue to change rapidly.

Table 3.1 Housing allowance systems in CE countries (around 2002–3)

	Czech Republic	Hungary	Poland	Slovakia	Slovenia
Public rental as a % of all housing units: 1990	39.1	23.0	31.6	27,7	31.0
Public rental as a % of all housing units: 2001	28,6	4.0	16.1	6.5	3.0
Rent Regulation	Max rent set according to location (settlement type)	No central regulation, local governments set rents, new public housing program started in 2000; . The minimum rent for non-profit sector was set at 2 per cent of the replacement	3% of replacement value in communal sector and 4% in the non-profit sector, but the landlords are free to set rent up to this ceiling, private rental is not regulated	Central regulation in both municipal and private housing, Max rent is 5% of replacement cost	Central regulation in public, private and non-profit sectors

2005; and M. Lux (Ed.), "Housing Policy: An End or a New Beginning?", Budapest, Open Society Institute: 2003; K. Dimitrovska-Andrews, "Housing in an expanding Europe", 2006, http://enhr2006-ljubljana.uirs.si/publish/PI_kaliopa.pdf

		cost			
Year of HA reform implementation	1993	1993/2004	1994	2000/2003	1994-2004
HA eligibility	Owner occupied and rental	Owner occupied and rental	Owner occupied and rental	Owner occupied and rental	Rental
HA rules	National	National/local	National/local	National	National
HA administration	Labor Office	Local government	Local government	District Office	Local government
HA formula	Special gap formula, based on difference between min income and actual income	Ad hoc formula: portion of socially accepted housing cost; different local solutions	Gap formula based on standard housing cost and burdened income	Gap formula based on standard housing cost and burdened income	Gap formula, max 25% of income can be paid for rent, HA is up to 80% of rent
HA financed by governments	Central	90% central, 10% local	1994-8: 50% local, 1998-2003 40% local	Central	Local
HA coverage in 2002/3	7.1% of households	7.3% of households	7.0% of households	3.4% of households	0.5% of households
Average monthly HA per capita, euro, 2002/3	25	7	31	31	37

Housing allowances are paid to eligible households according to the following formulas:

In **Poland** a standard gap formula is used:

HA = AHC – r*Y, HA>0, r is equal to 10-15%, depending on the size of household
Where:
HA=housing allowance
AHC=adequate housing cost, incl. rent plus utilities (maximum housing cost allowable by law)
r=rate of housing cost
Y=household income

Examples:
If AHC (for household of 4 persons) = 200 PLN and r=10% then:

- Households with monthly incomes of 800 PLN receive: 200 – 0.1*200 = 180 PLN

- Households with monthly incomes of 1600 PLN receive: 200 – 0.1*1600 = 40 PLN
- Households with monthly incomes of 2000 PLN receive: 200 – 0.1*200 = 0 PLN

In **Slovakia,** the same formula applies, however r=29%, thus the households in the examples above would receive 142, 0, and 0, respectively (of course, the units would being Slovakian crowns).

In **Slovenia,** a similar formula is used. The HA is limited only to rent payments support. According to the 2003 Slovene Housing Act (and based on this act the 2004 National Action Plan for Social Inclusion), the cost of rent incurred by an eligible low income household must not exceed 25% of its income (r=0.25) and up to 80% of the rent may be subsidized from municipal budgets (HA<=RENT).

In **the Czech Republic** a modified gap formula is used:

HA = r*(Ymin – Y)>0
Where:
Ymin=socially accepted minimum household income, and
HA and r are as above

All households with incomes below Ymin are eligible. The HA compensates a fraction of the difference between the minimum socially accepted income and the actual income. The rate is different for different household types. For eligible families with growing incomes, an increase of every 100 CZK would result in a much smaller reduction of HA. E.g., for r=0.2, this reduction would be 20 CZK.

In **Hungary** a simpler formula is used:

HA = r*AHC
Where:
r is between 10 and 20% of the adequate “maximum housing cost” set by law for different households according to their sizes and incomes (calculated per capita).

AHC includes only the cost of utilities. It does not include the rents, which are not supported by the central government. The actual costs of housing of a given household do not affect the HA.

In the gap formulas (Poland, Slovakia and the Czech Republic), the housing allowances decrease gradually as incomes increase. In Hungary the decrease is ‘sharp’; households either receive an HA (which is flat for a given household size) or do not receive an HA (if their incomes exceed prescribed levels of incomes per capita).

4. Social assistance to housing in CE in the context of other EU member states: a comparative analysis[4]

This section presents several tables presenting comparative indicators concerning social/public housing, compiled from EU statistics. The tables cover the CE countries (new EU members) in the context of other EU countries (mostly highly developed Western European states). The data on CE countries in the tables are marked in bold. The tables do not include countries for which data are not available or the smallest EU members (Luxemburg, Malta and Cyprus).

As shown in Tables 4.1 and 4.2, among the countries included in the classifications, there are six leaders in the support for public/social housing (2002-03). These are: France, the Netherlands, the Czech Republic, and three Scandinavian EU members (Denmark, Sweden, and Finland). These countries spend more than 0.5% of their GDPs on housing support and more than 2% of their state budget expenditure. Also, in these countries 40-80% of the rental sector is made up of social housing dwelling units and 15-35% of total housing stock is social housing. In France, almost 2% of total GDP (about USD 30 billion) was spent on housing. In the Netherlands, more than one-third of its housing stock (three-thirds of the rental sector) belong to the social housing category.

Among countries that provide the least support to housing are Greece and the Baltic countries. In Greece, housing remains exclusively in private hands. There is virtually no social housing and less than 0.01% of the budget is spent on housing support.

Table 4.1 Public housing subsidies as a percent of total public expenditure, state budget, and GDP, for selected EU countries, 2003

		% of total public expendi-ture	% of state budget expendi-ture	% of GDP
1	France	na	4.45	1.90
2	Finland	2.00	4.30	1.05
3	Denmark	1.90	3.40	1.00
4	**Czech Rep.**	**na**	**3.10**	**0.99**
5	Spain	na	2.60	0.73
6	Sweden	1.20	2.10	0.70
7	Netherlands	na	3.00	0.60
8	Portugal	na	na	0.50
9	Germany	0.61	2.45	0.30
10	**Poland**	**na**	**1.01**	**0.24**
11	Belgium	na	2.07	0.20

[4] Data in this section are compiled from „Housing Statistics in the European Union, 2004", http://www.iut.nu/EU/HousingStatistics2004.pdf

12	**Lithuania**	**0.70**	**1.14**	**0.20**
13	**Slovakia**	**na**	**0.52**	**0.12**
14	Ireland	0.24	0.32	0.10
15	**Estonia**	**0.22**	**0.26**	**0.09**
16	**Slovenia**	**na**	**0.19**	**0.04**
17	Greece	0.01	0.01	0.01

na = data not available

Source: Housing Statistics in the European Union 2004

There is a clear pattern of housing support policies in the EU. Among the countries providing larger financial support, i.e., the top nine states in Table 4.1, there is only one new EU member state (the Czech Republic), all other being rich Western European countries. On the other hand, the remaining eight countries are predominantly lower-income new member states. The difference in support is very large, taking into account that public expenditure and GDP levels in Western countries are much higher than in Central Europe. Moreover, in most cases, the Central European countries have tended to tighten their housing support expenditures over the last few years rather than augmenting them, despite the fact that the needs for such support is much greater because of large numbers of people subsisting below a poverty level.

Table 4.2 Social housing as a percent of rental sector and total housing stock, selected EU countries

		Year	% of rental sector	% of total housing stock
1	Netherlands	2003	76.8	34.6
2	**Poland**	**2002**	**na**	**23.4**
3	Sweden	2002	45.0	21.0
4	**Czech Rep.**	**2002**	**80.0**	**20.0**
5	Denmark	2003	43.0	20.0
6	France	2003	45.5	17.5
7	Finland	2003	50.0	17.2
8	Austria	2002	35.4	14.3
9	Ireland	2002	45.0	8.0
10	Belgium	2003	23.0	7.0
11	**Slovenia**	**2002**	**72.7**	**6.6**
12	Germany	2002	12.5	6.5
13	**Hungary**	**2003**	**na**	**4.6**
14	**Slovakia**	**2003**	**54.0**	**4.5**
15	Portugal	2001	15.8	3.3
16	**Estonia**	**2002**	**na**	**3.0**
17	**Lithuania**	**2003**	**27.0**	**3.0**
18	Spain	2003	11.6	0.9

19	**Latvia**	**2003**	**1.5**	**0.1**
20	Greece	2003	0.0	0.0

na = data not available

Source: Housing Statistics in the European Union 2004

A similar situation occurs in the area of social housing. While the top ten positions in Table 4.2, are occupied by high income Western countries, the bottom ten include predominantly Central European countries and lower income Western countries, such as Portugal and Greece.

Housing construction is subsidized with public money in all countries listed in Table 4.3, with the exception of Latvia. Yet, most countries do not provide financial support to housing administration and maintenance, while imposing strict rent controls. Only Estonia and Lithuania allow the market to determine rental prices. More often than not, rent controls tend to under-finance the maintenance costs of buildings; while being helpful to the tenants in the short run (by keeping rents low), in most cases they are not helpful to the owners of houses (both public and private) in maintaining the buildings in good shape and stimulating new housing construction.[5]

Social housing is targeted at low income populations and socially vulnerable households in all countries listed in Table 4.3, except Sweden. As shown in Column 5, only a few countries treat the private rental sector on par with the social housing sector, in particular, Sweden, the Netherlands, Germany, the Czech Republic, Slovakia, and Slovenia. In the remaining countries, the public housing sector enjoys some forms of protection and support from the state. In all countries included in Table 4.3, tenants are not required to contribute to the construction costs of social housing except in Austria, the Czech Republic, and Hungary. Finally, most countries treat social housing tenants liberally and do not require them to leave the apartments at the moment they stop meeting the criteria (including income) which qualify them for a social housing unit. This policy aims to to encourage people to work and increase their incomes rather than encouraging them to avoid any official employment in order to remain in a socially supported apartment. As shown in Table 4.3, only Spain, Belgium, Austria, Slovenia and Latvia do require the tenants to move out in such situations.

Table 4.3 Characteristics of the social housing sector, selected EU countries, 2003

Housing construction is directly supported from public	Management is supported from public resources (operating	Rent control is applied (cost	Dwellings are explicitly targeted at groups of	Tenant protection in this sector is stronger	Tenants do not participate financially in the	Tenants have to move when they

[5] An avid free market supporter, Milton Friedman (economics Nobel prize laureate), demonstrated how the combination of rent controls and the lack of subsidies in private housing brought about disastrous effects in low income housing in New York city which, unlike most other US cities, continued controlling rent prices for a long time after the WWII.

	resources (subsidies, soft loans, interest subsidies, guarantees)	subsidies)	rents, rents based on tenants' incomes, etc.)	people with limited incomes or socially vulnerable households	than in the private (profit oriented) rental sector	construction cost	no longer fulfill the criteria for belonging to the targeted groups
	1	2	3	4	5	6	7
Austria	YES	NO	YES	YES	YES	NO	YES
Belgium	YES	YES	YES	YES	YES	YES	YES
Czech Rep.	**YES**	**YES**	**YES**	**YES**	**NO**	**NO**	**NO**
Denmark	YES	NO	YES	YES	YES	YES	NO
Estonia	**YES**	**NO**	**NO**	**YES**	**YES**	**YES**	**NO**
Finland	YES	NO	YES	YES	YES/NO	YES	NO
France	YES	YES	YES	YES	YES	YES	NO
Germany	YES	NO	YES	YES	NO	YES	NO
Hungary	**YES**	**YES**	**YES**	**YES**	**YES**	**NO**	**NO**
Ireland	YES	YES	YES	YES	YES	YES	NO
Latvia	**NO**	**NO**	**YES**	**YES**	**YES**	**YES**	**YES**
Lithuania	**YES**	**NO**	**NO**	**YES**	**YES**	**YES**	**NO**
Netherlands	YES	NO	YES	YES	NO	YES	NO
Poland	**YES**	**NO**	**YES**	**YES**	**YES**	**YES**	**NO**
Portugal	YES	YES	YES	YES	YES	YES	NO
Slovakia	**YES**	**NO**	**YES**	**YES**	**NO**	**YES**	**NO**
Slovenia	**YES**	**NO**	**YES**	**YES**	**NO**	**YES**	**YES**
Spain	YES	YES/NO	YES	YES	YES	YES	YES
Sweden	YES	NO	YES	NO	NO	YES	NO

Source: Housing Statistics in the European Union 2004

Unlike in the two previous tables, in Table 4.3, the new member states do not significantly differ from the Western European countries. The former seem as diverse in their policies as the latter. The process of gradual convergence and unification among all EU members will help to lessen the East-West divide in Europe.

5. Lessons from the CE experience

Thus far none of the CE countries has managed to fully replace supply-side subsidies, which are favored in centrally commanded economies, with demand-side subsidies, which are more consistent with market economies. By subsidizing demand rather than supply, governments could invigorate housing markets in order to bring more efficiency to these markets and enforce the rigors of supply-side competition. In accordance with the Keynesian economic theory, enhanced consumer demand would stimulate markets to augment the delivery of housing services and improve the overall efficiency of the housing sector. In the CE countries, however, state support for housing has remained at a low level, too low for generating any significant impact on the markets.

The objectives of HA reforms in CE countries, such as those listed in Section 1 concerning the Slovak reform, have not been fully achieved for many reasons. The structures of housing utility markets, more often than not, have remained monopolistic, thwarting healthy competition. In many cases, property rights have been non-transparent and relatively weak. Therefore, a shift of subsidy handouts from the supplier to the consumer did not bring about any substantial change in the way these markets operate. No significant relationships between the demand side subsidies and the supply of housing has been noticed. In fact, the main role of these subsidies has not been to support the markets but rather to provide assistance to the poorest households (see the first objective of the Slovak reform in Section 1), without stimulating housing demand.

An important lesson from the CE experience is that the monetization of housing subsidies and the shift from the supply-side to demand-side are a necessary, but insufficient condition for transition from the socialist central-command economy to an efficient competitive market for many reasons:

- Transparency: monetized transfers to consumers rather than producers make the subsidies explicit and measurable in contrast to in-kind subsidies that are opaque and difficult to monitor, which makes them prone to fraud/corruption; in particular, cross-subsidization in the housing sector undermines the competitiveness of commercial providers that are forced to deliver products at below-cost prices
- Efficiency: subsidies to the service providers tend to distort markets and encourage rent seeking
- Targeting: monetary transfers to eligible households, selected based on clearly defined criteria, improve the targeting of social assistance, as well as its systematic monitoring and evaluation

Yet monetization of housing benefits must be undertaken as part of a systemic reform that would involve:

- clarifying and strengthening ownership rights in the property markets
- enforcing payments for a clearly measured consumption of service deliveries (by metering the use of water, heating, etc.)
- basing all payments for housing sector services on the true cost of their deliveries
- abolishing in-kind subsidies and all kinds of cross-subsidization
- abolishing (or improving regulation) of local/natural monopolies frequently occurring on the housing market
- fully integrating social/public housing within the rental housing market
- establishing an equitable benefit HA system with well-designed built-in incentives which motivate members to increase in household earnings and avoid over-consumption of housing, i.e., avoid market distortions that make housing excessively cheap (which breeds inefficiency); and

- securing transparency and stability/sustainability of housing policy; avoiding frequent policy changes

Social equity and good targeting remain a challenge to all HA systems. A common feature of HA systems introduced in CE countries after 1989 is favoring families living in social housing units. These families enjoy privileges granted them either directly, through tenure eligibility criteria (e.g., in Slovenia; see Table 3.1), or indirectly, by the imposition of low income ceilings. Access to these units is difficult if at all possible for a large number of families belonging to low- and mid-level income groups who do not own their own housing. These families incur very high costs for renting on the private market, which are often several times higher than the housing costs in the social housing sector. In most CE countries, tenants do not have to vacate social housing units after they no longer meet the eligibility criteria (Table 4.3). And many of them do not. At the same time, either the shortage of social housing units or the relatively high incomes of many middle class persons make them ineligible for both the social housing and HA, despite the fact that this population group tends to pay high taxes (supporting low income people) and incurs very high costs of private housing rents.

A partial solution to this problem could be a significant increase of rents in the social housing sector and at the same time provision of more financial support to low income families. This would help finance the maintenance costs of social housing (which currently often remains in bad condition because of a lack of funds) and enable creation of a more equitable housing allowance system (see the Nyiregyhaza reform in Section 2).

The experience of Hungary (Section 2) shows that the HA system has to maintain a reasonable balance between central and local authorities. A highly decentralized system implemented exclusively by local authorities, without the involvement of the central government, may remain under strong pressures of powerful local interests and fail to deliver adequate and equitable housing support for the needy. Yet, on the other hand, a highly centralized system providing same flat subsidies to households living in different conditions and/or in different localities seems to not be flexible enough to account for diverse housing specificities. There is also the danger that a poorly designed HA system will encourage shifts in the social assistance costs between central and local budgets through "creative" distortionary accounting.[6]

An important aspect of the design of housing subsidies is the implicit unintended incentives they may provide to subsidy recipients. Taking this into account, Poland, Slovakia, and several other countries have introduced a system that does not discourage income earnings by the recipients of HA. The reduction of HA resulting from an income

[6] A good example for this was provided by the 2004 reform of social assistance in Russia, leading to an increased "invalidization" of Russian population. Since, as a result of this reform, allowances to invalids, unlike most other social benefits, were financed from the Russia federal budget, local authorities in the regions supported invalidity claims submitted by their residents (see: I. Sinitsyna, Experience in implementing social benefits monetization reform in Russia). Another problem is the feasibility of social reforms. There are several examples of shifting responsibility for many social benefits from central authorities to local budgets without providing the latter with the financial resources for paying for these benefits.

increase was made significantly lower than the amount of additional income earned. As shown in the example of Poland, presented in Section 3, an increase of income from 800 PLN to 1600 PLN resulted in a reduction in HA of only 140 PLN.

Since income in the lowest income households comes predominantly from informal employment, it is difficult to monitor. This is why in Hungary (Section 2), the HA for the poorest households is the same for all households regardless of the exact amount of income they officially report to the authorities as long as it remains below one half of the social minimum. This arrangement does not encourage poor people to hide their incomes if they remain within the specified bracket.

In several countries, the HA does not depend on the actual cost of housing, but is a function of the “adequate housing cost” which is determined by law. This encourages households to save on their housing-related expenditures and makes the HA mobile. E.g., an eligible family that decides to move to a cheaper housing unit continues getting the same HA as before its move.

An important lesson from the CE experience in carrying out reforms of social policies, including the HA systems, is the need for solid preparatory work before any reform is implemented. Extensive pre-feasibility and feasibility studies, followed by due diligence efforts, must pave the way for any successful reform, involving thorough conceptual considerations, studies of international best practice cases, pilot experiments, consultations with people and civil society organizations, and a broad public information campaign about the reform (as it affects the lives of a large segment of population and many important institutions). The experience of CE countries shows that frequent changes in social policy rules significantly increase the costs of reforms and diminish their effectiveness.