

Soviet looting and the collapse of East bloc housing

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One of the prime yardsticks documenting the massive increase in Soviet looting of Eastern Europe has been the total collapse of housing construction in the satellite countries. The correlation between the worsening housing crisis in Eastern Europe and Soviet investment dictates for the Captive Nations' Five Year Plans can be shown by the following singular fact: Broadly speaking, East European housing construction peaked between 1975 and 1980, and has steadily *decreased* ever since. The only apparent exception to the trend has been East Germany. Why did the 1980s bring a collapse?

The last year of the 1976-80 Five Year Plan was 1980. Beginning with the 1981-85 Five Year Plan, Soviet-dictated priorities changed, in the form of demanding an exorbitant increase in the *goods* flow out of Eastern Europe into Russia. The nations of Eastern Europe could only pay the increased tribute to Muscovy by slashing planned investment in sectors of the economy "irrelevant" to Russian requirements. One of the main victims of this was the housing sector. **Table 1** shows this graphically.

This is the overall picture, in dry statistics. We will examine the picture regarding the northern tier of Eastern Europe, East Germany, Czechoslovakia, and Poland. To give the full dimensions of the horror in Eastern Europe's housing situation, we will turn to Poland.

TABLE 1
Apartments completed
(thousands)

Country	Peak year	1980	1983	1984
Bulgaria	1980: 74.3	74.3	69.7	68.9
C.S.S.R.	1975: 144.7	129	95.9	91.9
G.D.R.	1984: 207*	169	197	207*
Hungary	1975: 99.6	89.1	74.2	70.4
Poland	1978: 283.6	217	196	196
Romania	1980: 198	198	147	132

* The East German statistics are for the total number of both new apartments completed and renovated old apartments. Thus, East Germany has *not* been an exception to the rule. In 1984, the figure for new apartments completed was only 120,728, and had fallen down to the level of 1981.

Case study: Poland

The only indicator that has grown in the Polish housing sector is the waiting time before one can receive one's own apartment. That has risen from a 1980 average of 20 years to about 30 years at present. With very few exceptions, people are not homeless, as such. Cramped apartments are simply *shared* by families and extended families (cousins, in-laws, etc.). The housing deficit in Poland, calculated by the number of additional apartments required so that every family, young single, or pensioner can have his, her, or their own apartment, is staggering. At present 3 million Poles, nearly 10% of the population, are on waiting lists to receive apartments.

The percentage is far higher in the cities. The industrial city of Lodz, for example, with about 850,000 inhabitants, has 110,000 people waiting for their own apartments.

In 1980, the housing deficit already stood at 1.7 million apartments. The Polish State further estimated that between 1981 and 1990, an additional 1.5 million apartments had to be built to keep pace with population growth, and about 1.3 million new apartments were needed to replace old, dilapidated housing that would no longer be habitable by 1990. Add to this the 1.7 million apartment housing gap of 1980, and the number of apartments to be constructed between 1981 and 1990 to solve the housing shortage is 4.5 million. That means 450,000 per year, and just to keep the 1980 deficit from increasing, 280,000 per year.

During the 1980s, Polish housing construction has averaged 200,000 units per year. This is 80,000 units *lower* than required just to keep the 1980 deficit of 1.7 million units from increasing. Thus, by 1990, the Polish housing deficit will have risen to 2.5 million units.

Meanwhile, some 1.5 million existing homes are dilapidated and ready for demolition. Non-government Polish sources speak of a likely deficit of from 6 to over 7 million apartments by the year 2000. The existing homes are often cramped and unsafe. These conditions have led to social and family disintegration: Divorces have increased more than fourfold from 1950 to 1986, and as a result, over 1 million children are being brought up in broken homes. The cramped, tense housing conditions (a typical case is a young married couple forced to share a bedroom with the wife's parents) have been a major cause of the high rates of alcoholism in the population.

Dollar onus falls on Japan

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The meeting of the Group of Seven (G-7) finance ministers and central bankers in Washington on April 13 was meant to be a holding operation. In the event the statement issued at the end of the meeting succeeded in holding the U.S. dollar for less than 24 hours.

The U.S. trade figures for February, showing a deficit of \$13.8 billion, sent the dollar sharply lower. Currency market reaction would have been even more extreme had not the G-7 central banks intervened in force to stem the dollar's decline.

What was remarkable about the action on the foreign exchanges was not so much that the dollar fell—the U.S. dollar is likely to remain under downward pressure for as long as the U.S. productive sector continues to shrink relative to the productive sectors of other countries—but that this particular decline should be triggered by an event of relatively minor significance in itself.

The merchandise trade figures are an erratic statistical series. In several previous months, they have turned out better than the market generally had

expected. The figures released on April 14, however, happened to be \$2 billion worse than market expectations. This fluctuation was enough to put the skids under the dollar.

Clearly, market confidence in continuing currency stability is much more fragile than it seemed to be earlier this year. The G-7 central banks will be in for a torrid time supporting the U.S. currency ahead of the presidential election. And yet, they cannot allow the dollar to slip, for this could, this year, develop into a particularly dangerous "free fall."

This is because the foreign exchanges perceive that the U.S. administration is winding down and would be powerless to step in with measures and promises to support the U.S. dollar, as it did last summer.

The key flow supporting the U.S. currency is the inflow into U.S. assets from Japan. The evidence is that, despite some pick-up in Japanese private sector investment in U.S. stocks and bonds since the fourth quarter of 1987, Japanese public sector flows into the U.S.A., in the shape of Bank of Japan intervention to support the dollar, will

have to be substantial in the months ahead if the dollar is to remain steady.

While other G-7 central banks are also likely to be willing to support the dollar, there are limits to how far the West German Bundesbank and the Bank of England are prepared to go. This leaves the onus of dollar support on the Bank of Japan.

There is a constraint on the Bank of Japan's intervention. This is the potential inflationary impact of dollar-support buying which comes about through the upward pressure which the support exerts on the liquidity in Japanese domestic credit markets.

On the other hand, the Bank of Japan will calculate that, if the U.S. dollar is allowed to collapse during a U.S. presidential election year, the new U.S. administration would almost certainly be impelled to adopt protectionist trade measures which would damage Japan's interests.

On balance, it seems likely that the Bank of Japan will take risks with excess domestic liquidity if this means avoiding adverse political developments in the U.S.A. Consequently, the Bank of Japan can be expected to stage a strong defense of the dollar in the months ahead.

The result of this will be a further build-up of dollar assets in Japanese official hands. This fits in with Japan's longer-term aim of strengthening its control over U.S. economic activity.

Czechoslovakia, by East bloc standards, is considered "fortunate" in terms of housing and living standards. As will be clear from the picture we present, only from a Romanian or Polish yardstick can this adjective be used.

1) By the end of 1984, 580,000 Czechoslovakian families had *no* apartment of their own.

2) Forty percent of families have apartments with less than 8 square meters (8½ square yards) per person. The average space of an apartment built in 1984 was 46.3 square meters (50 square yards).

3) Of some 5 million apartments in Czechoslovakia, 1,172,000 of them, more than 20%, have no private toilet

facilities.

In East Germany, the so-called apartment paradise of the East bloc, in 1984, 28% of all apartments had neither bath nor shower facilities.

Nothing, of course, matches the dimensions of the housing crisis in Poland. The young generation of people in their twenties lives without the hope of having their own apartment until they are well into their forties. Add this to the daily shortages or lack of basic essentials, and ever-increasing prices for food and fuel, and it is only a matter of time before Moscow and Jaruzelski have another Polish crisis on their hands.