



**OPENING OF THE 102nd ACADEMIC YEAR
WARSAW SCHOOL OF ECONOMICS (SGH)**

October 4th, 2007

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“FOR THE RIGHT TO SHELTER ALL”

Magnificence, Rector of Warsaw School of Economics

High Senate

Dear Guests, Students and Friends

Until now, when addressing the habitation issue, we talked about the right to a flat, that in recent years has focused on the concept of ownership right to a flat. However, there are two reasons for which our view in this regard should be broadened:

- Firstly – not everybody may be a flat owner, but everybody needs a decent living place, namely – a roof over the head;
- Secondly – the progress of globalisation affects not only the economy, but all other processes as well. The world is called a global village, therefore, no aspect of social/economic processes can be viewed through one’s own perspective only.

70 years ago, a professor of our school, Konstanty Krzeczowski wrote: „Habitation ranks top among human needs as one of the most important items of individual consumption, it is simultaneously a social need, the way of satisfying which affects – as few other things do – all human environments.”

To understand why is it so hard to solve the problem of lack of accommodation that affects many people, one should become aware of the specific features of flat as a good of everyday use, namely:

- A flat is not only the most desired, it is also the most expensive durable property that not all can afford, for it is the fruit of many months of investment undertaking. In highly developed countries, an average salary enables to purchase 2-3 square metres of flat. In Poland this figure was ca 0.6–0.7 metre, prior to its recent falling to 0.3-0.35.
- A flat cannot be imported from a zone where it may be produced cheaper, because it must be erected at the site indicated by investor. The cost of its producing is thus largely conditional on local market conditions, not only on costs, but demand as well.
- It also has some additional features: it is a good object of pledge, as it is difficult to be hidden, it may function as income or hoarding. It is perfectly suitable for taxation and speculating.

The specific feature of flat does not contradict the effect of basic economic principles. But it does mean that while transfer related to flats, or in a broader scope real estate, may be global, the residential market is local, limited in territorial terms. The residential market of Łódź differs from Warsaw's. Even the Warsaw area comprises at least several local markets. Such a shallow market is easy to manipulate. We could all witness this phenomenon in recent months.

I shall now make a digression on this issue, as contrary to what some commentators claim, it is a phenomenon relatively easy to explain in economic terms. And so, demand for flats, rising since 2002 in proportion to increasing incomes and growing attractiveness of the credit offer of banks, in early 2006 was disrupted by two decisions:

- Firstly – resignation from the possibility to extend the 5-year transition period for applying the reduced VAT rate for flats. Hence the market received precise information that only flats then in construction, would be charged with lower VAT rate at the moment of acquiring ownership right. The price of all those that started being built later, will rise by 15%.
- Secondly – abolishing of residential allowance, so-called interest allowance, that I had opportunity to propose and implement in 2002. It was the second important and unambiguous information that stated that if no credit for flat was contracted in 2006, then the higher price of flat would be covered in total from income after taxation.

These two important economic reasons caused dramatic rise of demand, which at absence of possibility of higher supply in the short term, aggravated by speculative purchases, led to increase of prices of flats by 100% within 12 months.

Writing last October a lecture for a scientific conference on occasion of the anniversary of professor Witold Bień, I presented this mechanism and I anticipated that as in the 1st half of this year prices would continue rising „on its own momentum”, in mid-2007 they would stabilise. Today – in line with principles of economy – I may safely predict inevitably falling prices of flats in the coming months, by a dozen percent or so at least. (The drop would be evident already anyway, had our system not enabled sales of flats, so to say, „standing”. Meaning, flats that are not yet built. Thus everything that developers are building now has been sold long ago, or if someone so prefers to call it – contracted, distorting the market situation as a result, especially prices).

Now coming back to a broader problem, which is roof over the head. Our great late professors, such as Juliusz Goryński, Adam Andrzejewski or Henryk Hajduk, considered

that poor people are not capable of providing themselves with habitation on their own, hence it is the task of the state that implements a residential policy to ensure to everybody, poorest citizens included, decent – not meaning luxury – residential conditions.

The successful transition to a market economy generated a diversified market offer for all those with financial resources. However, if we have the poorest people in mind, those who did not enjoy rising income thanks to transformation, then for all those dealing with this issue it is evident that without public assistance, the problem of lack of their roof over the head, cannot be resolved. It was not accomplished anywhere, nor it is possible in Poland.

Some time ago I formulated 4 criteria of public spending within the framework of residential policy, specifically:

- consistency of introduced tool with existing system
- productivity – public money should achieve a target, not feed bureaucracy
- clarity – understandable to those it concerns
- transparency of the flow of resources.

Residential policy applies various tools and systems that largely meet the above stated criteria. I would like to focus for a while on the system of building flats for rental, by dedicated non-profit entities called Social Building Societies (TBS).

It is the most durable tool of our residential policy, introduced by force of a 1995 law. In the following time, the TBSs firstly came into being, then handed over for use nearly 100,000 flats, and financial assistance to the system from the state budget was almost PLN 6 billion. That money will not return to the budget, however, by continued operating within the system, it enables to build more flats.

The system, in short, consists in transfer of public resources to the National Residential Fund conducted by the BGK bank, which gives credits to TBSs building apartments for rental, at relatively low rents and destined at best for persons with average incomes. The system is modelled on similar French or British solutions. The basic difference between Polish and British TBSs is that the UK government can afford to transfer to TBS subsidies in amount covering 75% of investment costs, whilst our NRF provides 70% of preferential loan only.

Thanks to the durability of this solution and falling inflation and interest on credit, in 2005 prices of flats in TBSs came close to market levels, and TBSs' offer ceased to be attractive. In most cases it is directed to persons earning somewhat below average salaries,

rather than to truly poor people. Some politicians are even suggesting to donate TBS flats to their residents. Thus we would definitely get rid of the billions provided by the state budget and the sole efficiently functioning tool of residential policy.

But the truth is, TBS flats are necessary. If we talk about the deficit of more than a million flats in Poland, it applies exactly to the poorest, for whom a flat at moderate – or yet better – low rent, is the sole chance to have a roof over the head. The fact that compensation is charged for a TBS flat is a pathology of course, that nevertheless confirms demand for that type of flats. However, it will disappear only when those flats are in higher supply, and the TBSs will consistently execute their tasks.

In my opinion, this system is indispensable to ensure habitation for over a million Poles, and the only direction of its development is steadily increasing financing by the state. We are a country much richer than we were at the time the law was enacted, so it is high time not only to credit but also to subsidise TBSs's operations. In other words, to come closer even by small steps, to solutions applied by countries from which we took as the models for our own system.

The most positive example of TBSs' activities is the town of Stargard Szczeciński. True, there are many TBSs that built more than 1000 or even 2000 flats, but the concept of social flats is implemented in full only in Stargard Szczeciński. If one looks at the inhabitants of a residential estate where a dozen or so percent are disabled persons, be them mentally or physically, who at the same time are fully-fledged members of the community, whose presence is a natural element of functioning interhuman relations, then the effort of the management of this TBS to the benefit of its members, raises my respect and admiration. It is the only case I am aware of, in which unfortunate people have been created the conditions to lead a normal, decent life in co-existence with others, to melt into one friendly community. Moreover, the TBS in Stargard Szczeciński demonstrates to others the potential of this system, and how it can be used if those willing to do it, are in place. If someone does not understand what TBS means and is intent on abolishing this system, throwing out on this occasion PLN 6 billion from our taxes, then prior to deciding anything, he should pay a visit to Stargard Szczeciński in the first place.

To have a roof over the head, is an unquestionable basic human need. As long as I don't possess it, I believe it will make my life better. When I achieve it, I discover that the quality of my life is determined not only by the flat, but also by the structure of the space surrounding it.

Urbanisation is a permanent and irreversible process. In less than 60 years, the structure of Poland's population was completely reversed. Today 2/3 live in cities what means, that there 15 million more of us in urban areas. This year for the first time the number of inhabitants of cities worldwide, exceeded those who stayed in rural regions. Pace of urbanisation is set to increase – in 2020, city inhabitants will account for 60% of world population.

If so, then a city becomes, or has already become, man's natural environment. Our everyday lives depend on how the city functions, what is its social and technical infrastructure, communication and transportation networks, how it fares in other areas. Habitation and its surroundings decide the quality of our life, set the level of our frustration, aggression or satisfaction.

As a matter of fact, residential policy in its traditional sense consists of merely several tools implemented on the central level, that may be used more or less efficiently by citizens, organisations, economic entities, and mainly by local governments, that actually carry out the policies of urban development, hence residential as well.

The issue of urban development planning, or more than that, planning of sustainable urban development – has been a task that the United Nations Human Settlements Programme – UN-Habitat – has been attempting to disseminate for years, and since May of this year, following the signing of the so-called Leipzig Charter, it became a common task to be addressed by all members of the European Union.

Of course, the situation in Europe cannot be compared to other areas of the planet. Today there are 1 billion 200 million people in the world, who live in slums. It is a kind of a roof over the head too, but often devoid of potable water and electricity, usually without sewage, not to mention many other amenities that we use to associate as intricate attribute of a flat. But, this huge mass of people, citizens of the global village, has the same human wishes we do, among which there is – decent living. Their blameless error is having been born in the wrong place, not among us Europeans, where probably not everything is perfect, but the overall meeting of the need to live decently, is incomparably higher.

The UN-Habitat Programme created in 1977, adopted the objective of reducing the number of people living in slums. Its three regional Offices in Japan, Kenya and Brazil, do a lot to disseminate awareness of correct urban development, organisation of different processes of building affordable dwellings, or roof over the head for all. Even slums can be improved a bit. However, real progress requires much higher financial expenditure, out of

UN's reach. Even when good ideas appear – as for instance, a tiny tax on big capital transfers – then there is still no consent of the international community not only to introduce it, but even to honestly discuss it.

It is worthy to be aware that if progress in providing the poor with roof over the head will remain unchanged, then shortly from now, within thirteen years, slums will be inhabited by 200 million people more, and in mid-21st century, the number may come to 2 billion, what accounts for one fourth of the populace.

It is hard to anticipate the consequences of such development today. Goods and capital flow freely in the global village. Will they be followed by people living in slums? Will our society and economy be capable of admitting and absorbing 100 thousand or more „aliens“? Are we prepared to share our habitation with them? Will it be necessary and how far?

The lack of roof over the head, injustice and inequality, evidenced by slums, always provoke reaction. It should be forestalled, instead of empirically certifying how strong it will be and against whom it will turn... Being fascinated by our own everyday issues, let's not forget about the right to a roof over the head of people living in other continents.

We are now inaugurating the 102nd academic year, that is another year of formation of the country's economic elite. When I was a student, some lecturers kept telling us that we would rule the country in a few years' time. „You must learn, to do it best“. I then thought they were mocking on us, but years afterwards I understood that is the way it is in principle.

Now I know that our current students will rule in the future not only in the country, but in the global village, too. Let's hope we manage to teach them – apart from professional tools, such as accounting, businessplans, transfers, takeovers and capital mergers etc. – also social sensitivity and ability to solve increasingly complex social and economic problems.

It is worthy to believe they will fix our errors or do what we failed to do because we ran out of time, or what we simply failed to accomplish. The problem of the lack of a roof over the head for over a billion people will not be resolved by itself, nor by a market mechanism.

Thank you for your attention.