

## City development in Central and Eastern Europe since 1990: The impacts of internal forces

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### Introduction

By the end of the 1980s, Central and Eastern European cities had for four decades been part of the socialist political and economic system. Although there were visible differences in their outlook and level of development, the common elements of the socialist system still dominated the institutional structure and the major decision-making processes within these cities. The collapse of socialism in 1989–1990 brought about a totally new situation in which strong external and internal forces started to exert their influence.

This chapter analyses the transition from centrally planned to other, more or less market-orientated urban systems, concentrating on the internal forces of this process. By “internal forces”, we mean all the efforts made by different actors within these countries or from elsewhere to dissolve the “old” socialist system and create new elements. In contrast, “external forces” refer to broader processes, not specifically connected to the transition of the Central and Eastern European countries, such as globalization of the economy or extension of the European Union; these are discussed in the next two chapters.

To understand the logic of transition, an interpretation of the “socialist city-development model” dominated by state control and non-market institutional forms must be given first. This provides the basis for analysing the transformation of one system into another, in which both market and private, non-market elements are present. Subsequently, this chapter discusses different aspects of the dissolution of the socialist city-development model in more detail.

The focus is on the internal factors of change, such as the elimination of state control over the land and housing sector, privatization and restitution, and decentralization of decision-making from the central towards the municipal (in larger cities, even sub-municipal) level. Changes in the institutional system engendered the disappearance of the key actors of the socialist system (central planning agencies, monopolistic planning developer management organizations) and the emergence of new actors, such as the market-orientated private developers and commercial banks.

Therefore, this chapter combines theoretical and empirical approaches to the transition period in the large cities of Central and Eastern Europe. The analysis concentrates on changes in the residential sector and also on developments in the commercial and real estate sectors, such as the emergence of shopping centres and large-scale office developments. The final section discusses the future of city development in the Central and Eastern European countries: what kind of model or alternative models will replace the once common socialist city-development model, and how much will these model(s) differ from those which were dominant in the Western (American and European) cities one, two, or three decades ago? In other words, will post-socialist cities follow one given route towards a capitalist, free-market city, dominated by massive suburbanization of the middle classes, growing segregation within the city, and the takeover of non-residential functions in the central business district (CBD), or are other routes also possible or likely? Our initial hypothesis is that different development paths are observable among the post-socialist cities, as they move away from the common socialist city-development model; there are not only differences in the speed of change from the socialist model to another, but also differences in the direction of change – towards different variants of the capitalist city, towards another model in which market elements are mixed with non-market elements, or towards the “third world” model of cities. Thus, the starting point, the socialist city-development model, was common, but the end point is as yet uncertain and will most probably be different in large cities of the different subregions of Central and Eastern Europe.

### Theoretical Background: Was there a Distinctive Socialist Model of City Development at All?

There are debates among urban researchers as to whether or not a “general model” of city development in advanced societies exists (Szelényi, 1996: 286). Those defending the idea of the existence of a general model base it on changes in developed Western (American and West European) cities, describing such changes as sequential periods of urbanization, suburbanization, desuburbanization, and reurbanization. In this model, the process of industrialization is considered to be the decisive factor, while other variables, such as the type of political-economic system involved, are treated as subordinate (see van den Berg et al., 1982).

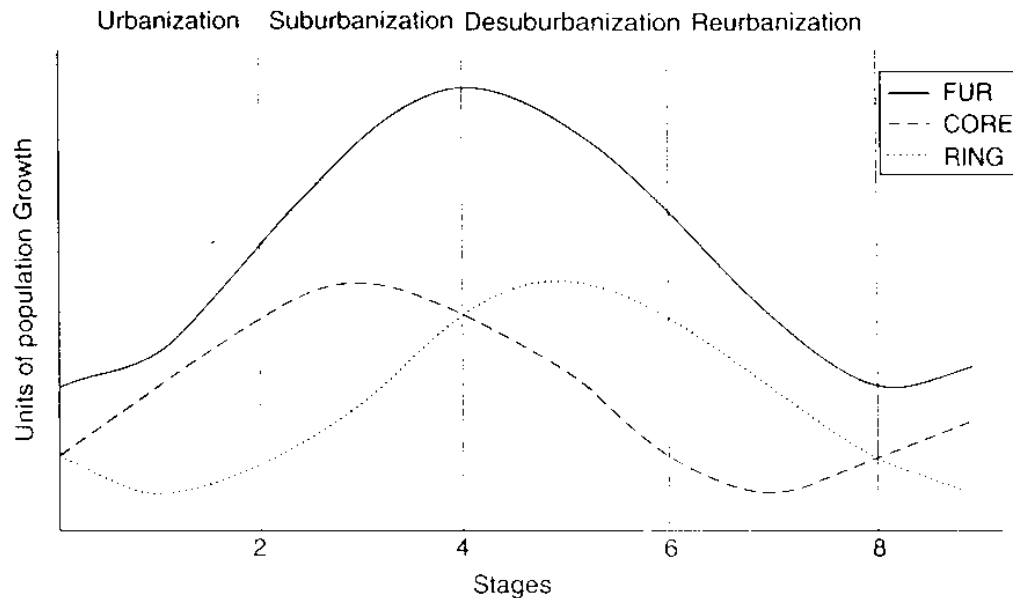


Fig. 3.1 Model of city development.

Source: Berg et al., 1982: 38.

This is “a globally applicable model”, in which new “stages were first developed in centres of economic and industrial innovation” and later “were transmitted from these core areas to other parts of the world, with different countries embarking on different stages at different times”. The case of the development of Central and Eastern European cities is regarded by this approach as part of the general model, being only “deferred” compared to the case of the Western European and especially the American cities, because industrialization is deferred in Hungary compared to the more developed Western countries. Consequently, in this view, “socialist urbanization was not a new model of modern urbanization. Rather, Central European socialist countries replicated stages of a more generally applicable global process of urban development” (see Enyedi, 1996: 102). This model can be called the “ecological” model of city development as it is described in Berg et al. (1982) and in Enyedi (1996).

The other theoretical stance, the “historical” approach, emphasizes the importance of the mode of production (the neo-Marxists) or of the political-economic order (the neo-Weberians) and considers the process of industrialization as of secondary importance. According to this approach, no general, linear model of city development is considered to exist. The starting statement of the historical approach is that “societies with different socio-economic orders will produce qualitatively different urban conditions” (Szelényi, 1996: 290). Thus, one major difference is that the same development phases can occur in different sequences in different cities, depending on the development of the given socio-economic systems.

Consequently, according to the historical approach, it is possible that the Central and Eastern European cities follow a different development path from their Western counterparts. Szelényi raises the hypothesis that in the case of socialist cities, not even the sequencing of urbanization and suburbanization phases resembles those of Western cities. Following the change from a centrally planned into a market society, post-socialist cities (in which some forms of suburbanization have already started) might be dominated again by urbanization, as the lifting of political and planning controls might result in a massive influx of poorer population from less developed regions. Häussermann (1996) also emphasizes the importance of the influence of socio-economic order on city development. The socialist city “could be designed according to theory and . . . realised according to the plan, and the state was in charge of all the means necessary to implement it. In former times, not even sovereign rulers disposed of such great power over urban development” (Häussermann, 1996: 215).

It is not the task of this chapter – or this book – to settle the dispute about the existence and universality of a general city-development model, or to give a final answer to the question of whether socialist cities were only in a deferred stage of their development or developed according to a totally different, distinctive model. The approach of the chapter, however, is not neutral – in fact it is closer to the historical approach and its “neo-Weberian” view, as it starts from an analysis of the most important political, institutional, and economic elements of city development, endowing these elements with the major role in the explanation of the dilemmas of the transition and of the new model(s) to be introduced.

### Key Structural Aspects of the Socialist Development Phase

The historical context and political legacies of the pre-1990 development of socialist cities are discussed in the previous chapter of this book. Here, therefore, it is only necessary to summarize those elements of the socialist city-development model that can be regarded as crucial from the point of view of transition from the original socialist model to other forms of city development.

#### *Control of the State over Supply and Demand Factors*

The socialist model did not ensure free choice between different supply options for consumers. On the one hand, the state strongly determined the income of citizens, defining it on a low level, eliminating from it all those cost components (education, housing, health care) which were to be given free to citizens through state services. At the same time, the state acquired virtually all important means of production and centralized all important investment decisions (Hegedüs and Tosics, 1996: 16; UNECE, 1997: 1). Price control over the whole economy was

an additional tool in the enforcement of political goals. The outcome was a planned economy with a primacy of industrial sectors at the expense of service activities. Many social services were provided by state enterprises. The main political goal – general accessibility to social services – was achieved in some of these services (like education and health care), although they were generally of a low standard and required considerable investment from the state budget. As a logical extension of the basic system, the “merit-based” allocation of higher-level services was developed based on the social status and contacts of people.

The control of the state over the demand and supply sides of the economy could not be fully established and could be fully maintained even less during subsequent decades of socialism. The history of the socialist housing model (Hegedüs and Tosics, 1996) illustrates this statement, showing the contrasting development tracks in the different countries and highlighting the case of Hungary, where quite soon, both on the demand and on the supply side, alternative mechanisms (“cracks”) have developed, decreasing the efficiency of state control. In any given period, the real strength of state control was the outcome of compromises between conflicting political and economic interests, leading to the almost total elimination of state control before the end of the 1980s.

### *The Special Characteristics of Socialist Urban Development*

Derived from the socialist political model and the system of planned economy, the following political-institutional factors are considered as important specific determinants of the Eastern European socialist urban and housing policies:

- significant state ownership of the land and housing stock in cities as a consequence of confiscation and nationalization;
- residential incomes under (in the beginning, total) state control;
- strong and direct state control over land use, leading to very specific land-use patterns expressing the preferences of the socialist state (Bertaud and Buckley, 1997: 3);
- administrative limitation of housing consumption (one dwelling per family);
- state control over certain housing policy factors (state-financed housing construction, social housing policy, subsidized private house-building, loan origination, construction industry, and materials);
- control over the private housing market (private rents) and indirect regulation of the self-financed form of housing construction;
- administrative limitation of the size and development (inflow of population, industrial growth) of major cities; and
- direct control over the financial resources of cities, and over the political decision-making process.

Subsequent chapters of this book, describing the development of individual Central and Eastern European cities, will show how these elements were introduced and what effect they had on the development of these cities. There

were significant differences in the timing and extent of the measures introduced (e.g. control over urban land was total in Moscow from the 1920s, while in most Central and Eastern European cities it was only partial – concentrating on the most dense core of the city – and in some cases introduced only at the end of the 1950s). Yet the logic of state control was the same, and had very similar consequences.

The institutions and households involved in urban development created specialized reactions and strategies to the listed – and from time to time changing – regulatory elements. For example, the most important state institutions involved in residential construction formed a “housing construction chain” (an institutional trust, a power-group of state planners, investors, developers, financial institutions) to acquire the direct state funds available on the supply side for the construction of new units (Hegedüs, Partos, and Tosics, 1980). Simultaneously, the behaviour of households was dominated by their efforts to obtain major subsidies on the demand side. Clear evidence for this was provided by the “double mobility way” of the better-off households: first, they obtained a state rental or cooperative flat from the state, mostly in less desirable locations but at a containing huge state subsidy. Later they sold these flats and acquired, on the market, the units they preferred. Eventually, strong state control and housing policy built on big subsidies resulted in distorted behaviour of the housing system on both the supply and demand sides, as a result of actions aimed primarily at obtaining the state subsidies provided through the housing sector.

Iván Szelényi, in his study on urban development under state socialism, divides the pre-transition period of the Eastern European (socialist) urban development into two phases (Szelényi, 1996: 304). In his evaluation, the first two-and-a-half decades of the socialist system, namely the period between the late 1940s and the mid-1970s, was dominated by the state, because of its decisive role in financing, constructing and allocating new housing units, and total control over the land market. The second phase, between the mid-1970s and the transition period of 1990s, is evaluated by Szelényi as a period in which market factors gained ground.

Hegedüs and Tosics (1996) analysed the processes from a similar perspective in their study of the “East European housing model”. When discussing the peculiarities of the situation in Hungary compared with the general features of the “East European housing model”, they state that the private sector economy has always had a role, and that the confiscated (nationalized) stock of units hardly exceeded half of the entire stock even in major cities. Part of the land market was always in private hands, amid quasi-market conditions. Political control was, of course, still the core of the system, within which even in the relatively liberal periods no market sphere could form where economic feedback and the rules of demand and supply could have freely operated: instead, the system was dominated by a kind of political feedback, which is an essential element of planning based on politics.

The distinguishing feature of Hungary, however, was that a limited market was still in operation throughout these housing policy and urban development processes, mainly ruled by politics and planning. The changing power relations of political and planning control and the private sphere necessitate the definition of at least four periods within the socialist system, depending on how much space was allowed to market conditions by politics: the periods of centralization between 1947 and 1956, and 1969 and 1980, were each followed by a relative *détente*, with a better climate for the private sphere. However, Chapter 12 gives a slightly different periodization for the development of Sofia.

Socialist urban development was of course influenced by, besides housing policy, other sectoral development policies, essentially based on the same logic. Here we highlight economic development and infrastructure investments, and their internal relations. In the 1960s and 1970s – when already suburbanization was under way or advanced in some Western countries – in Central and Eastern Europe, centrally planned and spatially concentrated industrial development (in a few new towns, but mainly in some of the already existing cities) brought about rapid growth of urban agglomerations. The “under-urbanization” theory (Szelényi, 1996: 287) based on different patterns of locating economic and infrastructure investments shows, however, how different this development was from Western suburbanization.

The starting point is the concentrated industrial development that took place in urban centres, which was accompanied by relatively slow infrastructural development of these cities. The new industrial workers of new urban enterprises could hardly settle down in the cities themselves, as real estate was more expensive there and permission was needed for purchase. At the same time, workers could commute between their rural residency and the industrial cities by well-developed and cheap public transport, or might settle in the agglomeration where real estate was cheaper and no permission was needed for purchase. As a consequence, increases in population were most significant in the surrounding areas of urban centres. This is a unique development model of the agglomeration, where the source of rapid increase in population in the area surrounding a city was not the residents moving out from the city but those coming in from rural areas, willing but not allowed to move into the city itself. This model may be considered as the “Eastern European type of urbanization” (Ekler, Hegedüs, and Tosics, 1980: 111). The notion of “under-urbanization” did not mean that cities were not increasing at all. From the 1970s on, the development of urban infrastructure was accelerated in socialist cities, mainly in the form of pre-fabricated large housing estates with high density of population. Thus, another important feature of the socialist urban model evolved.

The development features described above are characteristic of most Eastern European socialist countries. There are of course some deviations in details of minor importance between countries, like the amount of subsidies spent and the extent of control exerted on the self-financed forms of housing construction. As

a consequence, different patterns have formed in the directions of mobility of the wealthier households (towards condominiums) and the poorer residents (towards single-family housing) within and around the cities.

### *The Specific Urban Structure of Socialist Cities*

When arguing that the development of cities during the socialist period was significantly different from Western urban development processes, Szelényi considered the following three factors to be the most important distinctive features of socialist city development as a result of different political-economic circumstances (Szelényi, 1996: 287):

- under-urbanization: industrialization following the Second World War was accompanied by a lower degree of urban population growth than in Western countries;
- lower level of urbanization of major cities: as a result of political-economic social development policies, socialist cities were at a lower level of urbanization than Western cities of a similar size (the most obvious illustration being a comparison of the Eastern and Western sectors of the city of Berlin); and
- special urban development features of major cities: socialist cities' internal structures, social segregation, and slums have taken different directions from those in Western cities.

The last distinction mentioned means that a major city in Central and Eastern Europe – which in its structure resembled Western European cities even in the period between the two World Wars – would be marked at the end of the socialist period by different urban development characteristics. The most important urban structural elements of this type of development were:

- inner city areas dominated by a deteriorating stock of old buildings (due to neglect of the confiscated or nationalized stock and rent controls at a low level);
- transitional zones with mixed building dominated by obsolete large industry and other functions;
- concentrated development of high-density housing estates in the *outer zones* (under the given economic and political circumstances, this concentrated form was created to locate the “overheated” public housing investments);
- emergence of elite zones with high housing quality in the *green belt areas* (the opportunity for the political and economic leaders of the period to locate there was created through the nationalization of earlier elite districts, and their promotion was furthered by government and by subsidized private investments); and
- the emergence and relatively rapid growth of settlements in the *suburban region* with low-level infrastructure, largely inhabited by the lower echelons of society (for the new urban workforce, who could not move into the city because of administrative restrictions, this was the only area where they could settle and get housing largely from private resources, accessible to their place of work).



Due to the special features of the individual elements of the urban structure, the housing density gradient of the socialist cities also had specific characteristics.

Western European cities usually have an evenly decreasing density with increasing distance from the city centre. The case of socialist cities is different: the transitional zones have a lower density as compared with the evenly decreasing model (because of under-utilized areas), while the curve jumps upwards in the outer areas of the cities (because of high-density housing estates) (French and Hamilton, 1979). Indeed, Bertaud and Buckley have recently shown in the case of Crakow that land use patterns . . . and the massive housing estates, are not likely to have been situated in their present locations if market forces had governed locational decisions. Indeed, one indication that these locational patterns are unusual is the finding that these investment patterns cause more than half of Crakow's population to live at densities similar to those of New York City, a city ten times its size and one of the densest cities in the world (Bertaud-Buckley, 1997: 3).

The socialist model of housing and urban planning represented a housing and construction policy completely subordinate to a centralized, party-ruled, planned economic system. The socialist state regarded housing and construction policy as a matter of politics. To achieve political objectives it applied every possible form of intervention to regulate both supply and demand. Housing policy and urban planning became attached to power and served as a source of its legitimacy. As a consequence of being embedded in the legitimization of the power structure, the institutional and subsidization elements of the socialist model of housing policy and urban planning (e.g. housing factories, parts of the constructional chain, diversion of prices, subventions) were much more firmly established than their Western equivalents, most of which were abolished after a certain period of time.

The really distinctive marks of the socialist model of urban development are not to be found in specific elements of its structure, but in the system of political, economic, and social relations underlying their emergence: "the essence of socialist housing was its structure of decision-making in which the planning authorities – both party and state – had a decisive role in determining the conditions of informal contracts with the most important institutions and layers of the population" (Hegedüs and Tosics, 1996: 37). Thus, strict state control and centralized, politically motivated planning procedures were the characteristics of the socialist housing system and its urban development as well. These strong institutionalized elements and the procedures of political decision-making in place at the time resulted in the stabilization of many of the above-mentioned elements of urban structure:

- inner districts: the bulk of apartments built around the turn of the century or earlier, and nationalized in the early 1950s, received basically no major maintenance or rehabilitation investment for 40 years. As a result, the inner districts of many of the socialist cities have a huge stock of apartments in bad

condition (these figures run to hundreds of thousands in Budapest, which constitutes the single most serious rehabilitation problem in Europe [Hegedüs et al., 1993: 111]):

- new housing estates: a large share of the housing in socialist cities is located in concentrated, high-density housing estates. The well-known problems of such estates (monotonous environment, huge distance from the inner city, small size of dwellings) are especially true for those constructed with the panel technology of the 1970s. During the socialist period the buildings on these housing estates received no maintenance, so by now hundreds of thousands of apartments are in urgent need of comprehensive rehabilitation; and
- suburban settlements: population growth and intense housing construction from private resources was not matched by proper infrastructure development. In certain poorer sectors, a significant infrastructure backwardness emerged (in the early 1990s, for example, only 49 per cent of the dwellings in the southern Pest sector of the Budapest agglomeration had drinking-water supply pipes and only 12 per cent had proper sewage systems).

As a result of four decades of socialist social, political, and economic relations, the Central and Eastern European cities have developed according to specific political-institutional factors. The cities' populations and institutions have established their strategies in reaction to these circumstances. As a consequence of specific political and economic regulations and reactions to these regulations, the Central and Eastern European cities underwent significant changes and their urban structure became markedly different to the Western European city-model.

### The Transition: Fundamental Changes in the Political and Economic System

The basic political, institutional, and economic conditions of the former Eastern European socialist city-model were abolished when the political regime changed at the end of the 1980s. Overall state control was terminated and long-term politically motivated planning was been replaced by short-term (at most, one-year) planning. Other important factors of city development have changed, such as the main actors in decision-making positions, and ownership of the means of production and urban housing and land. This sudden change in all the fundamental conditions of city development made the period of transition one of the most turbulent and interesting phases of development in Central and Eastern European cities. Some of these countries started the transition, in an economic sense, years before the political changes took place. The most notable cases are Hungary, where central planning was eliminated in 1986 for local government financing and in 1988 for the housing sector, and Slovenia, where economic, monetary, and enterprise reforms emerged in 1987, marking a definite break-up of the previous "market socialism" (see Chapter 11). The fundamental

political changes only came, however, in the course of the early 1990s, with the peaceful transition from a one-party system into a democratic multi-party system with free elections. In most Central and Eastern European countries, this was the change that opened up the way for fundamental shifts in the economic system, and for the creation of more independent local governments as well.

### *The New Political Systems*

Parallel to the establishment of democratic multi-party parliamentary systems with free elections, the key question for the political transition was decentralization. In all socialist countries, subnational levels of government (regional/counties, local authorities) existed, but these had not been at all independent – political and financial decisions were directed from above and were controlled by the party apparatus. “Subnational governments were essentially deconcentrated units (or branch offices) of the central government and had little or no financial autonomy” (Bird et al., 1996: 1). Very soon after the establishment of the new democratic government at the central level, totally new legislation was adopted for local self-governments (in Poland and Hungary in 1990, in Bulgaria and Romania in 1991, in Albania, Russia, and Ukraine in 1992, in Slovenia in 1994). In most countries, the new legislation ensured, in principle, the establishment of independent local self-governments, and much of the public sector decision-making rights (and responsibilities) could be transferred from the central to the local government level. “Decentralization is a key dimension of the national transition from a command to a market economy. The total level of public sector activity must be dramatically reduced, but at the same time the new subnational governments must be allowed to build staff and institutional capacities” (Bird, Ebel, and Wallich, 1996: 2).

It is not the aim of this chapter to evaluate the decentralization processes of the post-socialist countries. It is unquestionably a large measure of success that during the course of the first decade of the new political system, independent local governments have been developed in most of these countries. “There is no direct involvement of any central government officers or politicians in local decision-making and central supervision is restricted to checking the legality of procedures” (Bennett, 1998: 38). In many countries the number of local governments increased dramatically (in the Czech Republic and Hungary the figure doubled, and in Bulgaria and Slovenia it more than doubled), which means that the new local governments became small in number of population, even smaller than before (e.g. average size in Hungary 3,000, and in the Czech Republic and Slovakia below 2,000, with 50 to 80 per cent of settlements below 1,000 population). Consequently, the new communes became too small to be able to administer some services, and this became a serious obstacle to real decentralization within the state as a whole (see Bennett, 1998: 41). Central governments were not keen to allow the local governments to develop into

powerful political entities. Therefore, no substantial financial autonomy was given to local governments: where local taxes were established at all, their magnitude was strongly limited and settlements continued to depend mainly on central transfers.

Furthermore, in many countries, the intermediate level (counties) of subnational government was terminated or made insignificant as a reaction to the substantial role these entities played in the socialist system in the allocation of political directives. All these facts prove that decentralization of political power was limited in the post-socialist countries. Although power-sharing between the national and local levels changed substantially compared to the socialist period, the central state managed to preserve a large amount of its power. The establishment of independent local governments "has been accompanied by a higher degree of centralism than was first intended . . . as a consequence of the fragmentation of the local level, the weakness (absence) of an intermediate level and as a result of the desire for efficiency and expedience in the context of economic transition" (Michalski and Saraceno, 2000: 19). In this situation, the role of the large cities, especially the capitals, increased as the only potential alternative power centres.

The decentralization process is applied in a very differentiated way to the individual countries of Central and Eastern Europe. Differences range from Hungary, where central government and legal regulation on local governments were more or less stable in the last decade, to Albania, where various crisis situations periodically led to huge changes. There are also big differences in changes to institutional structure; in some countries, the "old" political forces – the parties, the big state enterprises, the "interest associations" of the power elite – disappeared, and the newly elected local governments were given substantial power, while in others the old structures are still alive and continue to hold sway. An illustration of this "power play" was the deeply discussed question of the restructuring of the monopolistic state enterprises. Arguments were raised for compromising solutions between keeping these enterprises in an unchanged form, and the radical approach of privatization (or even total dissolution) of the companies. In the public utility sector, for example, the idea was raised to create non-profit companies from the state-owned utility companies. However, attempts at such a "third way" produced very controversial results.

For example, at the 1988–1989 Noszvaj (Hungary) conferences on the restructuring of the public rental sector, an idea was discussed that the Hungarian state-owned monopolistic public maintenance companies could be easily restructured into non-profit housing associations. Experience since then has not supported this belief, as companies did not become more efficient with small reorganizations. The reason behind this was simple: new rules cannot be introduced efficiently if the old institutional structure – with the old interest relations and the old leaders – remains. In Hungary, with few exceptions, real changes only occurred if these companies were dissolved and new private ventures

were established, or total privatization was carried out. The Polish approach was different and many of the old cooperatives continued in the new market-orientated system (there are, however, controversial evaluations about their efficiency). Probably the most successful example of this special type of restructuring was the German model, where all top managers of state-owned utility companies were replaced by experienced managers of similar, market-based Western companies. This happened in parallel to the change of ownership relations of the company from a state-owned to a local-government-owned limited liability company, functioning according to non-profit principles.

Besides decentralization, which is a phenomenon often discussed in Western European countries as well, Central and Eastern European countries had to solve another, special problem: compensating for political suppression. The new political system, of course, made it possible for suppressed political forces to come back to the political arena. Moreover, in most countries, direct financial compensation was given to those groups that suffered the most during the socialist period. In regard to urban development real-estate transfers, restitution of urban land and existing residential real estate was the most important method used.

### *Economic Transformation*

The details of the various economic transformations that occurred, dominated by privatization, have been discussed in many books and journals (e.g. for an analysis of the privatization of the economy see UNECE, 1997: 4–5; for privatization processes in the housing sector see Hegedüs, Mayo, and Tosics, 1996), and also in Chapters 4 and 5 of this book. Central and Eastern European countries differ from each other regarding the method used for the privatization of the economy. Privatization strategies range from employee and management buyout schemes through voucher systems to cash privatization. Chapter 11 of this book describes briefly the different methods used, such as the case of Slovenia, where the law made it possible for economic enterprises to select their own privatization strategy. Most recent economic data tend to show the advantages of those countries that used cash privatization against those where vouchers were allocated among the population (in this latter case the real ownership of economic enterprises was not clarified, and this postponed the necessary market decisions).

It is clear that both the method and the pace of privatization were politically determined. A good illustration of this is the case of housing: Hungary and Budapest, for example, could have kept more public rental housing instead of virtually privatizing the entire sector; the transformed housing sector could have worked well with a substantial public rental sector (Hegedüs et al., 1993). Under the pace of political changes in Hungary, however, these alternatives were soon swept away and replaced by more radical, market-orientated solutions. This was not the case in all of the Central and Eastern European countries, as in some of them the restructuring process happened at a considerably slower pace.

## The Development of Post-Socialist Cities in the 1990s: New Public Policies and Emerging Market Processes

In the course of 1989–1991, all the important factors of city development were changed in the Central and Eastern European countries. In general, planning and development commands/instructions and restrictions coming from the central level terminated, a practice similar to that of sending central budget transfers to the local level tied to prescribed interventions. Most cities became much more independent in the political, administrative, and economic sense than before in determining the development of their area and population. As a result, all cities of the Central and Eastern European region moved substantially towards the direction of the “market city”: they became more decentralized and privatized, with growing differentiation between different parts of the city. Below this common surface, however, very different circumstances, aims, and real processes can be discovered in the different cities of the region. The following sub-sections aim to conceptualize the most important changes in city development. Discussed first are the changes that occurred in the political, administrative, and financial framework of the cities; this is followed by an analysis of the main market processes at work, and finally we analyse the consequences of these changes in connection with mobility processes.

### *The Changing Regulatory and Institutional Environment of City Development*

It is not easy to elaborate the real changes that took place in the framework of local urban development in different Central and Eastern European countries. Despite a general tendency towards decentralization, the central (country) level had the opportunity to retain substantial influence over local urban development by introducing central regulation of public control over market processes, retaining some elements of direct central political control over local governments, and inter-governmental financing, regulating the level and proportion of public financial means transferred to the local levels.

When analysing changes in the role of the public sector, we must distinguish between two factors: first, the change in the regulation of general public control over market processes, and second, the allocation of the remaining elements of public control between the central and local government levels.

### *The Regulation of General Public Control over Market Processes*

As already discussed, the essence of the socialist model was strong state control over urban development processes, both on the demand and on the supply side. The change from the socialist model towards market-orientated model(s) means in general the elimination of this control or the replacement of its elements by less direct methods.

Changes in state control on the demand side:

- no state determination of the income of citizens;
- no state limitation on consumption at the higher end (unlimited consumption of housing, land, and means of production for citizens); and
- less state control over consumption at the lower end (homelessness and unemployment become much more common, and social services for homeless and unemployed are weak).

Changes in state control on the supply side:

- level of control: as a consequence of decentralization, many elements of public control were transferred to the local level (e.g. rent setting) or disappeared entirely (e.g. long-term planning for industry or housing);
- content of control: as a consequence of privatization, state ownership of production factors, housing, and land diminished or disappeared, state monopoly over important investment decisions became limited, and price control over the economy was lifted;
- main institutional elements of control: state-owned institutions have been privatized or their monopolistic positions have been restricted; and
- means of control: direct methods of public control were replaced by much more indirect methods (less central allocation of funds, more local taxes; no centrally determined long-term plans, only some control over yearly local budgets; weaker legal rights to constrain unwanted development, through building codes and zoning plans; weaker position for those wishing to carry out development in the public interest, through limited rights for expropriation).

Looking at this list, which is far from exhaustive, it is clear that the processes of democratization, decentralization, and privatization were responsible for the destruction of the main pillars of the socialist city-development model. The role of state control and long-term planning decreased in all transition countries, and totally new, more market-related actors (landlords, land-owners, enterprises, financial institutions) emerged as important decision-makers. More detailed examination of these changes, however, will reveal important differences between countries, leading perhaps to different new models of city development.

#### *The Allocation of the Remaining Elements of Public Control between the Different Levels of Government*

The main goal of the new political forces, besides democratization, was decentralization. Two important questions that had to be answered were: how many levels of administration should exist, and how should large cities be ruled or administered?

#### *How many Levels of Administration?*

Regions were not given substantial power after 1990 as there had not been regional self-governments in the socialist period but rather "multi-purpose deconcentrated state administrations perfectly corresponding to the organizational

principle of 'democratic centralism' under communist rule" (COR, 1999: 17). Therefore, it was the local government level in most of the Central and Eastern European countries that gained substantial strength as a consequence of decentralization. Local governments could, in fact, start to work as real decision-makers within their territory as the meso (or regional) level of administration was abolished or made insignificant. Central government transferred many public rights and responsibilities to the local level (e.g. public rental housing, ownership of "state" enterprises or public utilities). The new division of duties between central and local government made it possible for central government to withdraw from many tasks. The belief was that the local level would make wiser decisions, and more could be done with less money. In most of the countries in question, however, no calculations were made about the amount of public money needed to fulfil given tasks, so that generally the local level did not receive sufficient funds. An example of this is public rental housing in Hungary: after the transfer of the ownership (landlord) role from the central to the local level, the central budget subsidy earmarked for maintenance of public rental housing was terminated. Substantially different models can only be seen in Germany, where public rental housing was turned into a non-profit housing association sector, and a comprehensive subsidy system has been created to rehabilitate housing in inner city areas and on large housing estates.

### *The Special Problem of the Government Structure of Large Cities*

There exist various possible models of government structure in large cities:

... one in which there is a single level of government consisting of numerous local authorities, each responsible for the urban area, a second in which there is a single level of government consisting of one authority for the entire urban area, and a third in which there are two levels of government, one being a city-wide authority, and the other consisting of numerous local units. These may be described as the "poly-centric" model, the "unicity" model, and the "two-tier" model. (Barlow, 1994: 125)

In most large cities of Central and Eastern Europe, two levels of administration exist: there are district governments, and also one municipal (metropolitan) government (Bennett, 1998: 44). All the large cities, therefore, belong to the two-tier governmental model. The real functioning of these cities is quite different, however, and in reality, which model the city belongs to depends on power-sharing within layers of the city:

- Prague, a city of 1.2 million people, consisting of 56 districts, represents the case of a relatively strong upper (municipal) level, as the lower-level units are too small.
- Budapest, a city of 1.8 million people, consisting of 23 districts, represents the case of an "equal-power" two-tier system, in which both levels, the upper (municipal) level and the lower district level, are strong and can block each other.



- Warsaw, a city of 1.6 million people, comprises 11 districts and represents the case of a relatively strong lower (district) level, with strong planning power and resources, while the upper municipal level has only a coordinating role and no power for implementation.

Thus, these three cities represent three different models of the two-tier local government system. Further research is needed to show the pros and cons of these different administrative models, in which the upper municipal level plays a respectively dominant, equal, or even subordinate role to the districts.

### *Market Processes in the Transition Period*

The decade that has passed since the collapse of socialism has brought significant changes in the outlook of post-socialist cities. The most visible changes are the products of market forces: foreign investors, domestic entrepreneurs, and private persons acting as developers. The public sector does not play a major role in development, but its indirect role in making private investment possible and shaping its outcome is crucial. Enyedi (1998: 32) suggests a distinction between the main agents and main coordinators of urban development in the post-socialist cities. The main agents are found in the private sector and are manifest in economic decisions “ranging from the location of the investment of trans-national companies to the personal strategies of self-employed entrepreneurs”. Households are also important actors, putting their savings and investments into production, commerce or residential development, or even in their decisions whether to stay in the city or to move out of it. As the main coordinators of urban development, local governments have the task of creating the framework (regulations, incentives, services) for local development, and redirect a portion of the profit created by the local economy to the improvement of conditions in their city.

### *Changing Conditions for Real-estate Investments*

#### *Changes in the Urban Land Market*

Ownership relations and planning (zoning) regulations of urban land are among the most important factors shaping city development. The first years of transition brought about fundamental changes in this sphere in all post-socialist cities. One of the cornerstones of the socialist city-model was the elimination of an urban land market. Nationalization drastically reduced private ownership of land (limiting it to single-family fringe areas of cities), and in the public sphere, land values were not taken into account at all. “*Cities without land markets* had a spatial organization in which the needs of a supply-driven economy were accommodated. In the absence of economic incentives and land markets, the system produced land-use patterns characterised by a number of inefficiencies”

(UNECE, 1997: 18). Socialist cities, compared to Western cities, had much higher shares of industrial land use, less land used by public services, and much lower shares of residential land use. Due to a total lack of economic incentives, population density gradients – as already mentioned – were also very different to those of Western cities: inefficiencies can be shown in the very low density of the transitional belt areas close to the centre, in the extremely high density of the large housing estates on the urban fringe, and in the sudden decrease of density in agglomerations, immediately beyond the city border. This spatial model of socialist cities required high investments in urban infrastructure to make it possible to build the outer housing estates, and public transport to make it possible for the residents to travel to their far-away working places.

Urban land and property rights reforms were the subject of serious political consideration after 1989. In many post-socialist countries, compensation was given to reverse earlier confiscation. The injustice of socialism was either reversed by payments/vouchers, or in kind. In some countries (e.g. East Germany, Czech Republic, Slovenia, Albania and Bulgaria), in-kind restitution has even been extended to the urban land market; land (urban plots) was restituted to the heirs of the previous owners from whom the land had been confiscated. There is a general view that this restitution procedure created a lot of difficulties and slowed down the privatization process. In exceptional cases, like the inner city of Prague, restitution led to rapid investments, but otherwise its effect was to deter potential investors, as property relations were unclear.

Unfortunately, there are no reliable data on the magnitude of restitution in the land market. It is easier to measure this process in relation to housing stock. According to data from 1994 (Hegedüs, Mayo, and Tosics, 1996), restitution amounted to 3 per cent, and privatization (to sitting tenants) to 30 per cent of the 1990 public rental housing stock in Central and Eastern capital cities. As a result of restitution, privatization, and the introduction of market elements into land regulation, within the course of the first half of the 1990s, the land-price gradient turned from a flat line into a sharply decreasing line; in Cracow, for example, price differentiation between the centre and the periphery grew to 10:1 (UNECE, 1997: 19). Such differentiation is now much bigger than in Western cities as a result of exploding land prices in the CBD areas, in contrast with only slowly increasing land prices on the periphery of Central and Eastern European cities; even though suburbanization has started, it takes a long time to develop a stable, high-quality suburban ring.

### *The Changing Role of Urban Planning*

Parallel to restitution and privatization, the planning system must also be discussed, as the positive elements of the market (i.e. clear valuation, efficient allocation) can easily be countered by its potential negative elements. The less planning control, the more the emerging market tendencies change the city

towards the uncontrolled market-type city, with huge contradictions: office and commercial functions crowd out residential functions from the CBD area with the highest land values, upper-income families move out from the city to suburban locations with the highest value compared to other residential areas, and huge areas of previous industrial use within the existing fabric of the city remain derelict as the costs of recycling exceed the costs of establishing new functions in the green-field areas around the city.

Thus, urban planning has a very important role to play: it “has to ensure that urban land markets serve the economic and social needs of urban residents and businesses” (UNECE, 1997: 21). Besides economic considerations – attracting investment, rationalizing the use of infrastructure – issues of traffic optimization and social criteria also have to be taken into account, such as avoiding urban decline in given areas, minimizing negative environmental externalities, avoiding suburban sprawl, and protecting the existing values of the physical and natural environment. The new roles that urban planning has to play require new tools, as the direct regulation of the socialist period (i.e. very detailed zoning ordinances, direct state intervention on plot level to determine new use) is not in accordance with the challenges posed by market-orientated development. Urban planning has to operate more with indirect planning tools, such as framework-type regulations (e.g. maximum density permitted, specific effects excluded) and sophisticated and differentiated taxation methods.

### *The Economic Conditions for Investments in Urban Areas*

As a logical consequence of the collapse of the socialist economy and the deep restructuring procedure of the public sector, the public sphere lost its previously dominating role in the economy. Within the first four to five years of transition in many post-socialist countries, more than half of GDP was already produced by the private sector. Investments flowing into urban areas are also mainly products of market forces: foreign investors, domestic entrepreneurs, and private persons. There are, of course, huge differences in levels of investment among the various post-socialist countries, as economic conditions for urban development vary greatly.

Chapter 5 of this volume gives a detailed analysis of the magnitude of foreign direct investments and types of investors. In the first years of the transition (apart from the former East Germany, which is a totally different case), Hungary was the main target of FDI, while in the second half of the 1990s, Poland and Russia took over the leading role in this “competition”. Foreign investors valued political stability, general economic development, and some other specific conditions (i.e. the size of the internal market, solvent demand of the population and geographical location) when deciding where to put their investments. It is clear that the “economic restructuring that took place was largely left to market forces as the legacy of central planning had discredited top-down policies of economic

Table 3.1 The level of economic performance in the post-socialist countries in the 1990s

Countries	GNP/capita (US\$)		Real GDP/capita PPP (US\$)			Consumer price index		
	1992	1996	1991	1996	2001	1992	1997	2001
Germany*	23.030	28.741	19.770	21.200	26.500	5,3	3,2	2,4
Slovenia	6.540	9.448	9.878	11.248	16.100	201,3	8,6	8,4
Czech Republic	2.746	5.446	7.812	11.329	15.100	11,1	8,5	4,7
Slovakia	1.930	3.530		8.058	11.600		6,0	7,3
Hungary	2.970	4.402	6.080	7.035	12.400	23,0	18,3	9,2
Poland	1.910	3.480	4.500	5.991	9.600	43,0	14,8	5,5
Bulgaria	1.330	1.028	4.813	4.241	6.800	82,6	123,0	7,4
Romania	1.130	1.571	3.500	4.646	6.200	210,9	154,8	34,5
Albania			3.500			226,0	33,2	

Note: \*Data for Germany refer to the whole country, after unification.

Source: Trends in Europe and North America. The Statistical Yearbook of the Economic Commission for Europe, UN, 1995 and international statistics. Main Economic Indicators, Paris: OECD, 2002/6.

and regional development. As a result of transition regional and social inequalities have risen substantially within the Central and Eastern European countries” (Michalski and Saraceno, 2000: 21). As a general rule, it has been the largest cities who have been the winners and gained the most FDI, and who have thus managed to carry out economic restructuring in the shortest time (see Table 3.1).

Real-estate investments have the most direct effect on the urban restructuring of cities, while macro-economic conditions determine the supply of investors and the likelihood of financing being allocated to given projects. In the case of Hungary, it is easy to show how the “waves” of economic development relate to foreign investments. After the 1995–1996 fiscal reforms (a kind of shock therapy, to reverse negative budgetary processes), confidence has grown again in the macro-economic situation of the country, so that at the end of the century it is easy to get financing for sound development projects, and there is a tendency – also in connection with NATO membership – for Hungarian projects to be considered lower-risk than those in many other Eastern European countries. The result is seen in decreasing interest rates on large loans and in the activity of foreign financial institutions, which are starting to look for development projects in Hungary.

### *The Main Types of New Real-estate Investments*

There are numerous accounts of developments in the non-residential real-estate markets. Sýkora (1997: 109) gives an overview of commercial property

development in some Central European capital cities, concentrating mainly on the office market and paying much less attention to retailing, industry, and warehousing (see also Pütz, 1997; Barta, 1998).

*Commercial real-estate investments: Offices*

The commercial property market is flourishing in all post-socialist cities. The unprecedented speed of refurbishment and creation of commercial real estate has highlighted the peculiarities of this process, especially its spatial selectivity: "new commercial property development . . . focused on major urban centres; even within those it helped to revitalise only certain parts of their urban space" (Sýkora, 1998: 110). Sýkora considers privatization, price liberalization, rent deregulation, liberalization of foreign trade, and satisfactory property-orientated legislation as the most important preconditions for the functioning of real-estate markets. Most of these factors were quickly introduced in Central and Eastern European countries, with the exception of the last – the establishment of good property legislation, which took a much longer time. This factor, along with differences in national political and economic circumstances, explains the huge variation in the magnitude of real-estate investment across the big cities of the region.

*Commercial Real-estate Investments: Retail Sector*

It was around the middle of the 1990s that the first large shopping centres were erected in Central Europe. International retail chains concentrated their efforts in the first period almost exclusively on the Central European capital cities with the biggest purchasing power; investments in "secondary" cities followed with at least three years' delay. Investment decisions came in a period when both the purchasing power of the population and the turnover of the existing retail sector were declining as part of the early economic transformation. The "brave" decisions of investors in the retail sector came somewhat unexpectedly for the urban planners; by the time Budapest developed and passed its strategy for the regulation of the retail sector, the first 500,000 sq.m of new retail space had already been built or had acquired building permission (Baross, 1999). The retail sector has special importance in the restructuring of post-socialist cities. On the one hand, retailing was very underdeveloped in the socialist cities both in quantitative and qualitative terms: in 1994, retail space per capita was more than three times higher in Berlin than in Moscow (UNECE, 1997: 22). On the other hand, this sector exhibits in market economies the fastest restructuring in accordance with a high level of capital concentration and rapid globalization. As a result of rapid restructuring of the retail sector, the "break-in" of newly built, high-tech, professionally organized shopping centres became one of the most visible signs of the market-orientated development of the post-socialist cities. The new retail sector is more based on car use, needs bigger buildings, and is therefore more orientated towards the transitional zones and outskirts of cities,

and to suburban areas. This is a huge change for Central and Eastern European cities, in which the administrative centre of the city was traditionally also the centre of retail activities, a scheme that was only partially modified by the socialist city planning of retail sub-centres on new housing estates (Baross, 1999; French and Hamilton, 1979).

Although shopping centres have in many cases shorter "life expectancy" than residential or office developments, they are a crucial factor regarding where new retail investments are concentrated. If they are concentrated in suburban areas instead of the inner parts of cities, this can have a huge impact on traffic flows and can speed up residential suburbanization. In this regard, there is a big difference between Budapest and Prague, for example, in the proximity of shopping centres to the inner areas of the city.

#### *Real-estate Investments in the "Productive" Sectors*

The restructuring of the once-dominant socialist industrial system is a long story, starting with the closure of many outdated state-owned enterprises and continuing with different phases of privatization, the recovery of some brown-field areas, and much more substantial new green-field investments. The industrial sector, once the biggest employer, underwent dramatic changes, losing many workers. According to Barta (1998: 196), for instance, the industrial workforce of Budapest decreased from 602,000 in 1970 to 427,000 in 1980, 277,000 in 1990, and 117,000 in 1996. It is not the intention of this chapter to discuss the de-industrialization process in detail. Note, however, that changing employment patterns might seriously influence mobility: if out-of-town green-field investments become dominant, suburbanization might increase; furthermore, the problem of brown-field areas (derelict industrial areas) might become a major question in city (re)development (see Misztal, 1996: 125; and Chapter 5).

#### *Investment in the Residential Real-estate Market*

The transition towards market-type housing systems was slow in Central and Eastern Europe. The share of owner-occupied housing forms, which were really functioning as market commodities (i.e. in cases where the title was clear, the unit on the open housing market could serve as collateral for a bank loan), was low in most countries. This was one of the main reasons why profit-orientated housing (construction for sale) played only very limited role: low income levels and limited opportunities for bank financing meant that only the highest strata of society could afford to buy new housing units built by developers for cash. Thus, in most Central and Eastern European cities, speculative housing has played only a minor role, concentrating on the best areas of the city and on the highest-income households. Speculative residential real-estate investments were usually small, and not many developers existed who specialized only in residential construction.

By the end of the 1990s, this situation started to change in Central and Eastern Europe because of improved macro-economic conditions and a rise in incomes,

as a consequence of which more banks and developers turned to the residential real-estate market. As usual, the former East Germany differs significantly from this general picture. As a consequence of a dynamic rise in incomes and the generous tax-deduction possibilities offered by the federal government to all investments in the new states, market-led residential investments have been booming in and around eastern German cities. Based on the belief that there would be huge demand for suburban housing, substantial numbers of new units were built by investors for sale, mainly in suburban neighbourhoods. According to an analysis of the Leipzig housing market (Pfeiffer, 1995), there was an unprecedented wave of housing construction between 1990 and 1996 in the rental sector as a result of tax exemption: while 4,000 new flats were built between 1992 and 1994, some 11,000 were delivered in 1995, and 25,000 in 1996–1997. Nearly 80 per cent of new apartments are built in the suburbs. Another analysis (Pfeiffer, 1999) shows that the supply of new single-family houses also grew rapidly around the city. This supply already exceeds demand: 45,000 dwellings are empty in Leipzig, of which 9,000 are freshly renovated and 5,000 are newly built. Forecasts expect an excess supply of 85,000 housing units in the city by the year 2010.

Another clear exception from the general picture of a slow housing construction market in the post-socialist countries during the 1990s is Tirana. This city, accommodating 300,000 people before the political changes, exploded to 700,000 by 1998 and is expected to reach a million by 2006 (Aliaj et al., 2003: 83). According to estimates, 8,000 to 9,000 new households move to Tirana each year from other parts of Albania. Regarding housing supply, the legal market is hardly functioning, while the irregular constructions are very developed. About 70 per cent of the housing supply is provided by the informal sector, and 25 per cent of the population is living in the irregular settlements. The main reason for the high share of the informal sector is the poverty of the migrants. According to surveys, “60 per cent of the demand comes from low income groups; 26 per cent of households in Tirana live below the poverty line of 119 US\$ per month and this figure increases to 35 per cent in the periphery; a family in this category will need 30–40 years to buy an apartment in the formal market” (Misja, 1998: 57). The unprecedented growth of the city, based almost entirely on house building by the population itself and without real intervention by the authorities, leads to the “densification of the city within the boundaries of 1990 and the process of extension of the city outside these boundaries” at the same time (Slootweg, 1998: 138).

### Consequences of Transition on Social and Spatial Relations

This section summarizes new tendencies in residential mobility as the key variable in the city-development model, and offers some explanations to enable us to elaborate a hypothesis on the link between city development and public policy.

*Tendencies in Residential Mobility: The Spatial Restructuring of the Population*

Despite strong urbanization tendencies after the Second World War, at the end of the 1980s, Central and Eastern European countries were still very much behind Western Europe and Northern America regarding share of urban population: this was around 63 per cent in Central Europe, 55 per cent in South-east Europe, almost 80 per cent in Western Europe, and 75 per cent in Northern America (UNECE, 1997: 11). As discussed earlier, an important component of the socialist city-development model was the attempt to limit city growth. Yet, growing employment in socialist cities came into conflict with the deferred development of infrastructure and housing, so some part of urbanization was "indirect" – people employed by urban industry could only get accommodation outside urban centres, in suburban zones from where they commuted to work.

After 1989, all the earlier political-administrative barriers to internal population flows were eliminated. If all other aspects were left unchanged, this would have led to increased migration towards the cities, i.e. to a late wave of urbanization. However, other aspects of the situation changed substantially: the number of industrial workplaces decreased, many big state-owned employers in the cities closed down, and unemployment increased dramatically (although it was still the lowest in the largest cities). Additionally, the price of residential real estate increased faster in metropolitan areas than elsewhere and urban public transport fares started to rise. Thus, the question is: which aspect was becoming stronger – incentives to move into the city, or incentives to leave (see Table 3.2)?

All the cities investigated in more detail in this volume have been losing population in recent years, as a result of demographic decline and migration losses to their hinterlands. The available forecasts for the next decades are not very optimistic, suggesting further losses for Budapest, Prague, and Ljubljana, coupled with strong suburbanization processes (see Table 3.2). Moscow and

Table 3.2 Forecasts of population increase in some Central European metropolises

Population	1995		2010 (1995 = 100)		
	City	Agglo.*	City %	Agglo.%	Together %
Budapest	1,906	599	79	n.a.	n.a.
Prague	1,210	170	97	112	99
Warsaw	1,629	782	101	109	104

Note: \*\*"Agglo." refers to the suburban belt around the city.

Sources: Budapest, 2002 (forecast refers to 2015); for Prague: Turba and Mejsstrik (1999), and Warsaw (1999).



Tirana exhibit different trends. In Moscow, the previously positive demographic balance of births and deaths became negative around 1990, leading to almost 1 per cent (almost 100,000 people) yearly loss of population by the middle of the decade. The fact that the population of Moscow decreased by only 235,000 people (2.5 per cent) between 1992 and 1998 is due to the increasing positive migration balance of the city (the yearly migration surplus increased from 13,000 to 51,000 during this period (see Chapter 14, Table 14.5).

The most unique case is without doubt Tirana. In the 1990s, Tirana experienced an extremely quick population growth that can be called an "East European type of suburbanization", which means the growth of the suburbs (and also of the population of the city itself) from outside, as a consequence of positive migration balance from the rest of the country. This tendency will most probably continue, and the growth of population in Tirana and its agglomeration for the period 1995–2015 is expected to be 286 per cent, increasing from 508,000 to 1,452,000 (Aliaj and Aliaj, 1998: 110)! This dramatic increase of population both inside and around the city is a net result of high birth rates and inward migration.

This comparative analysis has illustrated the significant differences that exist between cities in the different subregions: in Central Europe, both demographic and migration data show losses; Tirana in South-east Europe is the opposite case, where both data show increases; and in Moscow, demographic losses are partly counter-weighted by a positive migration balance. Among the factors influencing future changes in population, the most difficult to estimate is the balance of external (foreign) migration. This is the only factor which could offset demographic and internal migration losses: the number of foreign citizens moving to these cities, as they become the new border cities of the European Union, is expected to grow. Yet, the most optimistic future scenarios for population in Budapest and Prague suggest that even intensive foreign in-migration will only help keep the population of the city stable.

The balance of external migration depends on a number of factors that have become the subject of intense debate. One question is the number of citizens of Central and Eastern European countries who will emigrate to other countries of the European Union when free movement of labour takes effect (probably some years after accession). According to most analysts, the fears of present border countries, especially Austria, are exaggerated. In any case, it is more likely that migration into the Central and Eastern European metropolises from outside the European Union will outweigh the number of citizens leaving these cities for other EU countries. In fact, "unwanted immigration flows from far afield is a challenge at least as great to the countries of Central and Eastern Europe as to the Western European countries, with the former having less resources and experience to manage them. It pleads for a balanced view on migration within the enlarged EU and for a common European approach to border management" (Michalski, 1999: 8).

### *Explanations and Hypotheses on the Causes of Suburbanization*

Analysis of post-socialist city development is most advanced in Germany, where the eastern region is in a stage of accelerated change, while the scholars of the western part have the necessary expertise, interest, and finance to study the turbulent urban development of the region.

#### *The Transformation of East German Cities*

Spatial developmental tendencies in East German cities have been widely discussed by Western scholars following the reunification. Their most important theoretical hypothesis (Fassman, 1997) states that in Eastern European post-socialist countries, while less advanced compared with Western Europe, spatial development is being created in a special way: capital moves to the suburbs first, and the population then follows it. This hypothesis might be paraphrased thusly: the economic and commercial development of Central European cities as a result of large-scale foreign capital investment has occurred mainly in the immediate vicinity of the cities. Foreign investors locate developments less in the deteriorating inner city brown-field areas than in the less inhabited suburban green-field areas, and these office and commercial developments form a comparatively much bigger proportion than suburban housing within overall suburban development.

Herfert (1996) shows that commerce and jobs began moving out of East German cities as early as 1990–1991, while the population followed only in 1992–1993. Losses of population from former East German cities after 1994 reached the levels of West German cities in the early 1970s (the annual amount of emigrants was 3 per cent in smaller cities and 1–2 per cent in larger ones). A factor specific to Germany, namely the special subsidy (tax exemption) for housing and economic investments until the end of 1998, contributed largely to this tendency. It is peculiar to East German suburbanization that, in the final balance, the agglomerations as a whole are losing population. This results from the ongoing migration from East to West Germany and thus cannot be generalized for the whole of Central Europe. Most of the emigrants own two cars, which signifies that the ones who move to the suburbs do not belong to the lower layers of society. On the Berlin housing market (Pfeiffer, 1995), dominated by rental units, the demand for owner-occupied dwellings is high; according to a sample of households, demand for private apartments amounts to 160,000, but only half of these expect to actually have an apartment within two years. According to the demand analysis, most of such richer families are from West Berlin and want to get private property in the inner districts. Since this is not possible in West Berlin, they try to move to East Berlin or to the suburbs.

#### *Transformation Processes in other Central European Capital Cities*

The hypothesis of Fassman – that the movement of capital to the suburbs proceeds that of the population – might not be equally valid across the different

Central and Eastern European countries. Germany might be the only country experiencing this effect, and the other Central European cities seem to differ from this model. In the case of Budapest, commercial development concentrates on the city and less on the suburbs, and there is, as yet, no strong link between the out-migration of economic and housing investments. Suburban settlements with the most dynamic economic development are usually not identical to those that have the highest population increase. The link between the two processes might be the development of basic infrastructure, necessary for both economic and housing investments. There are, however, different ideas in many suburban settlements as to whether economic or population growth is their main development aim (Tosics et al., 1998: 189).

One analysis of the Budapest housing market (Tosics et al., 1998) was based on a sample of families who wished to change their flat in the near future. To move out from Budapest to the suburban belt was a definite wish of 17 per cent of the families surveyed. Another 23–26 per cent of families thought that the suburban belt would become the most likely place where they would find their new housing unit. These families were bigger than average, lived in crowded conditions, and were thus strongly motivated to move to bigger housing units. Starcevic (1996) offers an overview of Prague's development in the last decades and its effects on the dilemmas of today. The development of Prague was artificially restrained for 45 years and new construction was permitted only in the form of apartment housing estates. This led to a distorted development, the result of which is that one-fifth of the population own a weekend house, 60 per cent of which are in the suburbs. Following the change of regime, better-off families had the opportunity to move out from the city. Trends suggest, however, that these families tend to remain in their small rental dwellings in the inner city. The author accounts for this by the influence of the younger generation: children prefer the inner city because of the attractiveness of the urban environment there (proper public transport, cultural and entertainment opportunities, etc.). The Master Plan of Prague remains cautious with regard to the suburbs (it predicts 30,000 new apartments by 2010), but new projections for the metropolitan area suggest much faster migration. Furthermore, projects in the suburban areas themselves reflect enormous potential for development: they expect their population to grow somewhere between 100 and 1,000 per cent! Thus, Prague is threatened by rapid uncontrolled suburbanization, the dangers of which are yet to be recognized by urban planners.

#### *Differences in the Forces of Suburbanization*

The analysis above has shown important differences in the causes of suburbanization in the former East German cities compared with other Central European capital cities, the most important of which are the level of state subsidy given for and capital invested into suburban development. On the other hand, there are also some similarities: housing market analyses of Berlin and

Budapest revealed the fact that the motives for suburbanization in many cases are not the positive features of the suburb or the negative conditions of the inner city, but certain expectations with regard to the new dwellings which can only be matched in the suburbs. In the case of Berlin this was because owner-occupied housing is more readily available in the suburbs, while in the case of Budapest it is the large size and the good environmental quality of the new dwelling relative to its price that is important. Families looking for housing with such attributes are not able to pay the inner city Budapest price of these dwellings, and hence they search for them in the suburban belt at a much cheaper price. If the cities could change these imbalances, the speed of suburbanization could be reduced substantially.

### Transition of City Development: From the Socialist Model – Towards What?

There was once a socialist city-model, dominated by state control over all actors of development, and by non-market mechanisms that integrated these actors (see the logic of this model in Hegedüs and Tosics, 1998). This city-model has been dissolved since the end of the 1980s in a transitional process in which control on both the demand and supply sides has changed substantially. The changes leading to the dissolution of the socialist city-model, initiated partly by the state, partly by the market, and partly by spontaneous processes, occurred in different forms across the Central and Eastern European countries. In some countries decentralization has been quick and comprehensive (even leading to extreme situations), while in others the reinforcement of local governments is slower and real power is still kept at the national level. The same applies to changes in property relations: in some countries private ownership is almost totally dominant, while in others public or non-profit forms have retained a significant role. There are also differences in the “aggressiveness” of foreign development capital, which depends very much on political stability, on the speed of economic restructuring in the country, and on the geopolitical position of the city.

The question raised in this chapter is the following: what are the possible ways of transition from the socialist city into different, market-orientated or other city-types, and what are the potential outcomes?

As a result of differences in political, economic, and society-related factors, in some countries and cities quick changes lead towards a pure, free-market version of the capitalist city-model; in other cities, regulatory, equalizing elements remain or become strong and the outcome is closer to a more regulated version of the capitalist city-model or even to a different (“third world”) city-model. The outcomes are “path-dependent”, determined both by the starting position of the city, and by political and economic development factors. As a result, there are very different sub-types of city development emerging in the transition period,

differing in the level of state control, the functioning of the land market, the magnitude of investments, and the activity of citizens. There is one common fact: a radically different type of public control over the city as compared with the central planning of the socialist period. Differences in types of city development relate to the strength and direction of this new public control.

Ten years after the collapse of socialism, significantly different processes of post-socialist city development are observable mostly in the capital cities of Central and Eastern Europe. On the basis of empirical facts and those also presented in Chapters 7–14, we can hypothesize the following sub-types of development in post-socialist cities:<sup>1</sup>

- (1) *East German cities*: quick transition from the socialist into the capitalist city-model. Extraordinary influx of capital investments into the office, commercial, and housing market, quickly increasing population incomes. Strong central and local public control: no privatization of housing to sitting tenants, and carefully established, new types of public control over the land market, and over the planning and building process. Huge public investments in infrastructure, public transport, and renewal of large housing estates. The outcome might be somewhere between the unregulated and regulated capitalist city-model, depending on “competition” between investment lobbies and the public sector.
- (2) *Hungarian (and in some respect Slovenian) cities*: relatively quick transition from the socialist towards the capitalist city-model. Huge capital investments into the office and commercial market, rapid differentiation of incomes with a thin layer of very rich people and a wide layer of people in poverty. Dissolution of previous types of public control at both the national and local levels, rapid and total privatization of housing to sitting tenants, very slow establishment of new type of local public control over the land market, planning and building process. The outcome might be the unregulated capitalist city-model, unless the newly developing public control becomes strong enough to limit free-market processes.
- (3) *Czech, Slovakian, Polish cities*: relatively quick transition from the socialist to a “mixed” model with some remnants of state control. Growing capital investments into the office and commercial market, slow differentiation of population incomes. Partial dissolution of the previous types of public control, slow privatization of housing to sitting tenants, very slow establishment of new type of public control over the land market, planning, and building process. The outcome might be somewhere between the unregulated and regulated capitalist city-model, depending on the strength and direction of public control.
- (4) *Bulgarian, Romanian cities*: slow transition from the socialist towards the capitalist city-model. Very limited capital investments in the office and commercial market, stagnating but differentiating population incomes. Dissolution of previous type of public control, quick and total privatization

of housing to sitting tenants, very slow establishment of new type of public control over the land market, planning, and building process. The outcome might be the unregulated capitalist city, with some elements of the "third world" type of city development.

- (5) *Albanian cities*: quick transition from the socialist into an unregulated "third world" city-development model. Very limited formal capital investments, but substantial population investments into the illegal or unofficial commercial and housing market, decreasing and quickly differentiating official population incomes. Total dissolution of all previous types of public control, quick and total privatization of housing to sitting tenants, no new type of public control over the land market, planning, and building process. The outcome is the parallel process of densification and sprawl in urban areas in a quick, unregulated development.
- (6) *Other ex-Yugoslav cities*: slow transition from the socialist towards the capitalist city-model due to armed conflict in the 1990s, mass refugee movements, and destroyed urban centres. Very limited capital investments at first, but substantial population investments into the illegal or unofficial property market. Relatively quick privatization of public housing to sitting tenants at the beginning of the 1990s, but deferred restitution, privatization of enterprises, and other public assets due to the war and unsettled disputes over property. Huge differentiation in incomes between the "formal" and "informal" sectors, and very slow establishment of new type of public control over the land market, planning, and building processes. The outcome is the parallel process of densification and sprawl through unregulated development, with some elements of the "third world" type of city development.
- (7) *Baltic cities*: relatively quick transition from the socialist (and ex-Soviet) into a "mixed" ("Scandinavian") model with some elements of state control. Growing capital investments into the property market, slow differentiation of rather low population incomes. First slow, but from 1996 accelerated privatization of housing to sitting tenants, and establishment of new type of public control over the land market, planning, and building process. The outcome might be somewhere between the unregulated and regulated capitalist city-model, depending on the strength and direction of public control.
- (8) *Russian (and to some extent other East European) cities*: transition from the socialist towards a locally controlled, mixed city-model. Limited foreign capital investments into the office and commercial market, stagnating but extremely differentiated population incomes. Rich and very powerful public sector on the local level. Dissolution of the previous type of general public control was replaced by political power concentrated at the local level, functioning along political and personal lines and not adapting itself to the indirect regulation of market processes. Quick privatization of housing to sitting tenants, new type of public control over the land market, planning, and building process based on political decisions taken by the very strong

local government. The outcome is local government and investment-led city development, a curious mixture of political and market elements of (un)regulated development.

This hypothetical classification is based on available information mainly from the capital cities of Central and Eastern European countries. It is also possible that significant differences emerge within the same country between the largest (capital) city and other cities, as only the former can really participate in competition with European cities, which has special consequences on city development.

From the facts summarized in this chapter, the socialist period of city development can be evaluated as a substantially different model compared to the "general development model" of the cities of market-economy countries. The development of the socialist cities was in many aspects unique, which also means that socialist cities arrived with many similarities to each other at the beginning of the transitional period. Thus, the starting position had many common aspects. Our analysis indicates that the end point of the transition from the socialist towards other city-models is as yet uncertain and might vary throughout the different subregions of Central and Eastern Europe. The future of the post-socialist cities can be hypothesized in the following way:

- for Central European cities – the first three sub-types listed above – and to some extent *Baltic cities*, there will be a differentiation typical of the market-orientated capitalist city: the less public intervention occurs, the more these cities will approach the American, "sprawl-type" city-model, while new types of public control will encourage a move towards the European "compact city" model. This means that if a post-socialist city wants to avoid some unwanted phases of development (e.g. the phase dominated by massive suburbanization), strong public intervention must be established, to be able to control market processes;
- cities in South-east Europe (sub-type 4) and *East Europe* (sub-type 8) are somehow limited in their development towards the capitalist city-model. There are elements of other city-development models that could potentially influence the direction taken by these cities;
- the Albanian and some ex-Yugoslav cities are completely different from all the others, leading towards a different outcome than the capitalist city-model.

The further development of the post-socialist cities depends on a number of factors. Probably the most important of these is the need for a new type of public control over market processes, parallel to a transition from the socialist system into democratic, market-based systems. Central and Eastern European cities also face two other types of transformation: changing from the industrial into the post-industrial phase, and becoming emerging participants in the globalization process (Enyedi, 1998: 30). To manage successfully the challenges posed by the last two types of transformation it is essential to complete the first, i.e. to establish a new institutional framework and a new system of public control over market processes, which is the prerequisite for the establishment of a long-term

strategy of city development and is key to success in the globalizing, competitive world.

The key question for the future development of post-socialist cities is: how and on what level can an efficient new public leadership be established? As Bennett (1998: 53) argues, "the reform and development of the upper tier . . . represent perhaps the most crucial development required to enhance the capacity of the local governments of cities". As "upper-tier", Bennett understands subnational, regional governments or agencies, and the metropolitan (municipal) government in the case of the large cities. On this level, a new type of public leadership should be developed, which should be based on the partnership of the enabling state, business, third sectors, and local associations. Those cities which joined the European Union in the first wave, in May 2004, will get a special push.

Therefore, the specific model of city development in post-socialist cities will depend very much on the strength and quality of this new public leadership, and its cooperation with the other actors in the partnership. For post-socialist cities, the whole range of present city-development models (American, Western European, or third world type) will be available. The impact of the past will gradually diminish, and new forms of public leadership will gradually gain in strength to determine the future of these cities.

## Note

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