Neither the Market Nor the State: Housing Privatization Issues

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> We say market, we say reprivatization. But that market has many names. If, after the dogmatic faith in the benefits of the planned economy, there comes an equally dogmatic faith in the benefits of the market, then we are in trouble. Because the market is to the economy what freedom is to democracy: a primary condition. But the market is not a self-activated mechanism that can replace the economic policy of the state and the economic activity of the people. The market has several names. We know the difference between the market as it is seen by Milton Friedman and the market with a human face as it is perceived by, say, the leaders of Swedish social democracy.
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> The cult of the market will lead to the great triumph of Friedmanism. But what does it mean to be Chicago Boys in a post-Communist country? It can mean a certain particular economic practice—that is, the determination to pursue a reform of relations of ownership. But it also can mean a glorification of egoism, a contempt for the weak and the poor, a disrespect for Christian options in defense of the most disadvantaged. In this, by the way, lies the paradox of the Solidarity movement. On the one hand, we opt for the market and for reprivatization. On the other, the upheaval in Poland was the creation of striking workers of precisely the huge industrial enterprises that are the least profitable, the ones that will have to be closed down.[1]

This paper makes a tentative, preliminary proposal of a housing privatization policy for a district of a large city in which most of the residential housing stock has been publicly owned and maintained, and operated with subsidized rent levels. The proposal is animated by the ideals of solidarity and participation. Its form contrasts not only with state ownership but also with the more familiar forms of classically liberal privatization in which solidarity and participation play little or no role.

The discussion proceeds from the general to the concrete. Part I identifies as a crucial issue in privatization the choice between regulatory and structural approaches to realizing solidarity and participation. Part II summarizes "institutionalist" thinking about the dynamics of an urban residential housing market following a conventional privatization of the publicly owned stock. Part III outlines the range of structural and regulatory policies currently pursued in Western housing economies. Part IV proposes a specific, eclectic mix of these policies as an alternative to an unrestricted distribution of public housing units to their occupants.

This is not a "practical" proposal because it is not based on a careful study of a particular post-communist urban housing situation. I produced it as a way of thinking about what I observed during two visits to Hungary in 1990 and 1991, but I am not an expert on the situation in that country, nor even on housing. The proposal represents an attempt to develop the conceptual vocabulary for talking concretely, even technically about a "third way" between the extremes of state socialism and liberal capitalism, rather than a solution to the actual housing privatization dilemma of a particular city.

I. Structural vs. Regulatory Solidarity and Participation

The proposal has three important characteristics. First, the policy is a specific combination of the whole range of different kinds of initiatives that have characterized social democratic and democratic socialist housing policy in Western Europe and the United States. It combines a market sector based on absolute ownership, a small fully public sector, a variety of types of restricted private ownership, and housing allowances. It also proposes to "steer" the evolution of public, restricted and private sectors through a particular mix of the regulatory regimes and institutions current in the West.

Second, the core of the policy is the creation of a limited equity cooperative sector within which residents hold inalienable rights to participate in building management, and an alienable but narrowly defined interest in the building's market value. Third, the policy takes advantage of the transitional regimes' ownership of the great majority of all residential and commercial property. It proposes to set up the limited equity sector through privatization to sitting tenants, and to finance the improvement of the housing situation of the poorest part of the population through the proceeds of sale of market rate units and through the profits from the state's commercial real estate.

The proposal quite obviously belongs to the general category of "third way" social thinking. It rejects, both in practice and as an ideal, the full "decommodification" of housing through collective ownership or through the establishment of an inalienable, state-backed housing entitlement. It equally rejects, both in practice and as an ideal, the assimilation of property in residential housing to the model of the abstract commodity subject to the classical rules of contract and tort.

However, the proposal does not claim or aspire to "transcend" this traditional duality through a new synthesis. It is rather an example of third-way thinking toward the eclectic, opportunistic adaption of all available social forms for the achievement of a balance, and toward the disintegration and colonization of the commodity form rather than toward its abolition. In this it is strongly influenced by socialist housing policy in Sweden, and analogous to the development of worker ownership schemes based on the restricted definition of shareholder rights.

The proposal is eclectic in that it attempts to "unleash" market forces while at the same time channeling them through a combination of "regulatory" and "structural" solidarity and participation. Both aim to prevent the evil of the modern slum, an area of exclusively low income residence characterized by physically and morally degrading housing conditions and neighborhood social pathology.

By regulatory solidarity and participation, I mean legal regimes that are understood as public interventions, generally through administrative agencies such as planning boards, rent control authorities and building inspectorates, that limit the exercise of otherwise absolute ownership rights, with the goal of protecting weak parties and the common interest. In this proposal, the main function of regulatory intervention is the preservation of neighborhood stability, and thereby the prevention of the polarization of the residential stock into high and low-income sectors. The goal is both to preserve class diversity for its own sake and to prevent alternation between downward cycles of disinvestment and upward cycles of gentrification for vulnerable groups.

By structural solidarity and participation, I mean the distribution among the variety of actors affected by housing decisions of "sculpted" property rights ("sticks" from the "bundle" that makes up absolute ownership), carefully designed so as to induce solidarity and participation through private action backed by private law remedies. The prime example of the structural approach is the definition of a resident's interest in a limited equity cooperative. The interest is private property, includes full possessory and succession rights, and is freely alienable. The participation rights attached to the unit are inalienable, as are the obligations to other building occupants. The property interest is limited to the right to recoup initial investment and improvements, but only a small fraction of any "speculative" or "urbanistically created" surplus. The remainder of the surplus belongs to other actors, which may include the cooperative, a community bank of some kind, the locality and the state. In "Limited Equity Housing Cooperatives as a Mode of Housing Privatization," which appears later in this volume, we develop the details of an institution of this kind, and describe how they might effect housing policy objectives.

A system in which most of the residential housing stock is held under such a regime is conceptually one of private property. There is no forced conversion of units from "full" to limited equity, no requirement that new construction be organized in that form, no legal obligation to buy a cooperative as opposed to an absolutely owned unit, and owners are free to sell *what they own* at any time. Yet it is also clear that this is a more "social," less individualist version of a private property system than one in which absolute ownership is the norm. It is a structural solution because the values of solidarity and participation are enhanced through the internal definition of the commodity of residential housing, rather than through a regulatory overlay on an individualist private law regime. Its great potential virtues are to prevent the "normal" tendency of even a regulated market to force the poor into slums, and to extend the possible sphere of democracy to include building self-management.

II. A Nightmare Privatization Scenario: The Institutionalist View

No developed Western economy in fact relies primarily on either the market or on state ownership to house the lower-income segment of its population. Throughout the West, both center-right and center-left governments have had extensive housing policies since World War II. This is a striking phenomenon, given the ideological commitment of these countries to the market.

As an explanation of the regulatory commitments of Western housing economies, imagine the following model housing situation. It is an ideal-type reconstruction of late nineteenth- and early twentieth-century European and American experience, and also, very significantly, of the current experience of those parts of Western markets that are unregulated or weakly regulated. Its relevance to postcommunist Eastern Europe is speculative.

Imagine that eight hundred thousand of a city's one million residents are housed in two hundred thousand very similar state-owned units, with more or less equal density (persons per square foot) and amenities. Commercial and recreational facilities are minimal. These units are relatively modern, are deteriorating quite rapidly, and are viewed as unappealing by traditional cultural standards. Their occupants have incomes varying from extremely low to quite high, and the differences in income are likely to increase through time.

Another hundred thousand residents of varied income levels live in twenty-five thousand "traditional" (late nineteenth- and early twentieth-century) state-owned units close to the city center. These are either in bad condition or are deteriorating rapidly. One hundred thousand high-income residents are housed in fifty thousand very high quality private units that have never been part of the state sector.

The government charges rents significantly below operating costs, based on the number of rooms in the unit. A state agency, known for its inefficiency, manages the whole stock, maintaining it in a more or less uniformly deteriorating condition. The housing deficit is made up out of the proceeds of progressive income taxation of the population as a whole. Tenant selection procedures have produced a random distribution of units among people of different income levels.

Now imagine that the state transfers all its units to their occupants for nothing. Further imagine that there are no restrictions on resale, on the form of tenure (rental, cooperative, condominium), rents, demolition, change of use, or structural modification of units. The state housing management enterprise is privatized. All subsidies end. The institutionalist view is that there are likely to be several dynamic tendencies.

A. Upper-income Housing Consumption

Upper-income households will sharply increase their consumption of housing and housing services and create homogeneous upper-income neighborhoods. These households (including some of those now in the private stock) will purchase new space, consolidate units, upgrade and rehabilitate, and attract private investment in new amenities and new services. They will use their higher incomes to bid space away from low-income households, and their high incomes will make the development of their neighborhoods attractive to private investment.

Since there are significant neighborhood effects of development, and great commercial advantage in investing in consolidated upper-income areas, there will be pressure to displace low-income families from any area that begins an "upward development spiral." These spirals are processes of cumulative change, based on "feedback effects," in which a given housing improvement increases the profitability of making a further improvement, and so on. They will produce income homogeneity in improving neighborhoods.

Some upper-income families will be able to afford the high cost of new construction. This will occur partly in existing upper-income areas, partly on undeveloped suburban land, and partly through the demolition of low- and middle-income units near the city center. High-income development will not produce enough new housing for "trickle down" (low-income families move into stock vacated by new upper-income construction) to ease the emerging shortage of low-income housing. (If new construction is truly unregulated, private developers and squatters will build very low quality housing, new slums, on the far outskirts of the city.)

Upper-income people will be better off in this situation for three reasons. First, they no longer subsidize the housing of lower-income groups. Second, the market offers them many new, affordable alternative uses for the part of their income they want to devote to housing. Third, there are now many homogeneous upper-income neighborhoods, rather than only a few.

B. Middle- and Lower-income Housing Consumption

Middle- and lower-income households will reduce their consumption of housing, relocate in poor neighborhoods, and suffer a general loss of wealth.

When the state distributes all units, at the same time terminating subsidized maintenance, it enriches one part of the population and impoverishes another. Every household now finds itself with a new asset, an apartment. But every household now faces either an immediate increase in living expenses, to sustain the old level of maintenance, or a decline in housing amenity.

For upper-income households, as pointed out above, this is probably a desirable situation: they prefer to spend a higher part of their incomes than they do on housing, in exchange for a higher level of amenity. Privatization increases the supply for them, so that they can make these expenditures at prices lower than those previously prevailing in the small private stock.

For a second, middle group, the benefits of ownership in a free market more or less balance the loss of the subsidy. This group may increase, reduce, or just maintain the current level of operating expenditures, but whatever that decision, it sees itself as benefitting from proprietary rights, including succession, ownership of improvements, and appreciation of asset value. These households would pay something to become owners, or at least not object to transfer.

For a third, low-income group, having to accept unsubsidized ownership is a financial disaster. For this group, the immediate increase in outlay necessary to keep up maintenance will require a reduction in other necessities, such as food, clothing, and health care. The decline in housing amenity, or in other consumption of necessities, means that the benefits of equity ownership are less than its liabilities. These households would not agree to become owners if given a choice.[2]

Many low- and middle-income tenants will sell their units for prices well below present market rates, and purchase less desirable units with lower operating costs, or rent similar lower-cost units, in newly homogeneous poor neighborhoods. Low-income owners, who face either sharply reduced consumption of necessities, or sharply reduced housing amenity, are under great pressure to sell. Their goal will be to move to smaller, less desirable quarters with lower operating costs. Where there is an upward spiral of neighborhood improvement, upper-income buyers will offer low- and middle-income owners prices for their units that exceed their use value in their existing condition. Low- and middle-income owners will sell, using the proceeds to buy or rent in less expensive neighborhoods.

The prices will be low for a number of reasons. First, the supply of market rate housing has increased enormously with privatization, but the demand, at least in the short run, should be basically the same. Second, low-income owners who cannot afford unsubsidized operating costs will have to sell. Third, there will be a significant number of unsophisticated low- and middle-income owners who will choose quick sale at a low price to "speculators," and other incompetent sellers who will be defrauded.

We would expect little long-run increase in the wealth of low-income people because they are likely to spend the proceeds of sale on new housing, or to meet their current expenses, or to cope with emergencies. This means that privatization is unlikely to modify the basic class and income hierarchy of the society.

Areas that do not experience an upward spiral will lose most of their upper-income residents to the improving areas, receive large numbers of displaced low-income renters, and become higher in density and economically homogeneous. There will be little or no reconfiguration or commercial development of low-income neighborhoods. Social problems will concentrate geographically, further reenforcing the tendency to polarization.

C. Characteristics of the Low-income Rental Sector

In this scenario, a low-income rental sector should emerge, characterized by several features. First, the sector will include a professional large landlord class and a petty bourgeois amateur group using ownership of a building or two as a way to begin family wealth accumulation. They will sometimes be excellent service providers, and sometimes incompetent or abusive. Second, lower-income tenants will pay higher absolute rents than at present, and receive in return a smaller proportion of the total stock (with more people to each room). Third, low-income apartments will deteriorate and have a very low "floor," meaning that conditions in the worst-maintained units will be likely to violate cultural norms about squalid living conditions. Fourth, there will be no substantial participation of low-income renters in building management.

To summarize, there will be a reduction in the actual housing consumption of the lower income half of the population, increasing density, a steady increase in the private market rents for low-income units, and physical deterioration of the low-income stock by comparison with the period before privatization. Low-income households will suffer three distinct wealth effects: first, the removal of government subsidy of operating expenses of their units with no concomitant tax reduction; second, upward pressure on rents based on market power of upper-income groups that want more space; and, third, concentration in low-income neighborhoods with accompanying downward spirals of social pathology. The wealth effects will increase low-income malnutrition, poor clothing, homelessness, and so forth. These negative effects are likely to be far greater than the positive wealth effect of acquisition of an apartment.

D. Low-income Market Instability

It is likely that the low-income neighborhood markets will be continuously unstable. Upgrading spirals in particular parts of the large uniform stock will be initiated by differences in amenities, such as distance from the center or from employment, public transportation, attractiveness of terrain, and so forth. The decisions of large investors to reconfigure whole areas, and the random effects of small improvements that bring a rush of followers, will also be important. The residential area of the central city is likely to "gentrify," meaning that all low-income residents will be bought or forced out, as upper-income households bid up prices beyond their ability to pay.

Whatever the pattern established in the first postprivatization period, it is unlikely to be stable over the long run. The reason for this is that the housing situation of the lower-income half of the population is dominated or driven by their relative position in the income distribution, rather than by their absolute or real income level.

The distribution of income is likely to become more unequal, after privatization of the economy. If growth is irregular, with fluctuations in the relative employment and income levels of social groups, or if there is significant migration between country and city, each change will set off dramatic new cycles of instability in the private residential stock.

It is important to see that these do not conform to the typical neoclassical liberal image of a system in stable equilibrium which responds to a changed input by the minimal adjustment needed to return to stability. In modern housing markets, small changes often produce cumulative feedback effects that leave the system quite far from where it started. For this reason, there are always likely to be significant masses of the lower-income population that are experiencing either displacement through eviction, or rapidly increasing rents as upper-income households bid for their space. Other significant parts of the population are likely to be experiencing neighborhood decline, with low rents, but significant social distress and unrest.

E. Political Polarization

The period of intense housing reconfiguration following privatization is likely to generate two groups with a deep interest in the continuation of an unregulated market regime. The first group consists of developers, land speculators, the luxury unit construction industry, the small entrepreneurs who convert and upgrade units, and landlords. The second group consists of that part of the upper-income group that hopes to use the monetary fruit of its labor (or its accumulated communist wealth) to dramatically improve its housing situation (at the expense of the lower-income group). In a democratic political system on the model of the West, the free-market groups will have large financial resources to invest in media, policy formulation, the corruption of public officials, and political campaigns. They will exercise an influence altogether disproportionate to their numbers.

Privatization on this model will generate a third group, low-income tenants, likely to be permanently opposed to the free-market housing policy. This group will have been impoverished by the transition process, and will have continuing grievances caused by the instability of the market in poor neighborhoods. Equally important, it will be a group accustomed to the social condition of private-market tenant, in which there is no incentive to invest in the unit, no practical power to influence what happens to other units in the neighborhood, and a relationship of class and social antagonism with a large bureaucratic or petty bourgeois landlord. The combination of impoverishment, disempowerment, and neighborhood instability often produces antidemocratic politics. A policy of "radical" privatization of this kind, with these results, is likely to alienate most of the bottom half of the income distribution from whatever political party puts it into effect.

III. Structural and Regulatory Alternatives

There are four basic domains of government housing policy in the West. These are:

(1) macropolicy to encourage new construction and control it through regional planning;
(2) housing allowances based on income and family size;
(3) regulation of the landlord-tenant relationship; and
(4) private and public law regulation of tenure (the legal form of ownership).

A. Macropolicy

The most basic policy of Western governments since World War II has been to encourage the construction of large quantities of housing. The second, equally basic policy has been regional planning, intended to control urban growth and to assure that the siting of new industry takes housing needs into account.

An important development in macropolicy has been the development of so-called "exactions." These are requirements that developers include in their costs a provision to offset the costs they will impose on the housing environment by their activities. At one level, this means requirements that they build roads or schools or day-care centers in their projects. Another important type of exaction is one that requires developers whose projects increase pressure on the low-income stock to include new low-income units.

B. Housing Allowances

Housing allowances are state grants to households designed to increase their ability to buy housing in the private market. The state can base them on income, family size, disability, or any other criterion. They increase the bargaining power of recipients *vis-à-vis* unassisted groups, and in the process enrich the owners of the existing housing stock, who can charge more than before because of increased demand. They allow recipients to choose how to spend their housing budget, rather than concentrating them in state-owned units. But they are open to their own variety of corruptions and abuses.

C. Legal Regulation of the Landlord-Tenant Relationship

Regulation of the landlord-tenant relationship includes various kinds of policies. One type of regulatory policy is a nonwaivable provision in residential leases requiring the landlord to invest enough in maintenance to keep the unit up to a minimum standard of "habitability." This type of provision is enforceable both through a public regulatory process (including criminal sanctions), and through private actions that tenants or tenant organizations bring against landlords.

A second form of regulatory policy is eviction control. This means that landlords may not terminate residential leases "at will," that is, at the landlord's discretion. The tenant has a nonwaivable continuing right of occupancy except where the tenant fails to pay the rent or behaves in an antisocial manner. A goal here is to encourage tenant investment in rental units.

A third form of regulation is rent control. Applied selectively, the purpose of rent control laws is not to redistribute income from landlords to tenants, but to prevent low-income tenants from being displaced when a change in upper-income demand threatens to price them out of their homes.

An additional form of regulation guarantees tenants participatory rights. Tenants may hold nonwaivable rights to participate in building organizations and local tenant unions. They also may hold nonwaivable rights to comanage various aspects of building life, and a right to good-faith collective bargaining over lease terms, including rents.

D. Regulation of Tenure

Policies aimed at the form of tenure, or legal ownership, have three objectives. The first is to encourage equity ownership (property rights) and discourage rental. The second is to develop forms of collective equity ownership rather than individual ownership. The third is to develop forms of ownership that discourage the neighborhood instability caused by "upward spirals" resulting from upper-income groups's demands for space that lower-income groups presently occupy.

Nonwaivable regulation of the landlord-tenant relationship will encourage ownership at the expense of tenancy. But there are further possibilities, ranging from subsidies, to owner-occupants (to prevent them from becoming renters), to flat legal prohibition of rental occupancy.

Where the state gives or sells a building (or part of it) to tenants, the deed might require that that the owner-occupants retain *nonwaivable* collective rights. The group controls building maintenance, rules for conduct, and selection of new occupants. A basic choice here is whether to allow decision-making by majorities, or to require supermajority or unanimous decisions. Contracts between collectives and building maintenance organizations are regulated by the state.

A basic social-democratic policy goal pursued in the West is to prevent changes in income distribution and business cycle shifts from progressively shrinking the part of the total housing stock that is available to the bottom half of the population. With respect to the rental stock, tenants' rights are partly designed to slow or prevent the displacement of low-income tenants when their units become desirable to higher income groups. But insofar as the state succeeds in promoting ownership rather than tenancy, the low-income stock becomes vulnerable to "buy-out." In periods of instability (gentrification), low-income owners sell their units to high-income buyers and use the proceeds to displace other low-income people.

To prevent this, the state can organize new low-income owners in limited equity cooperatives (LECs). LECs provide security of tenure, the right to inherit, full managerial power, and the right to recoup some portion of individual investment in units. But the right to appropriate "speculative" increases in equity, that is, to capture the market premium offered in periods of gentrification, is retained either by a nonprofit organization, the state, or a community land trust established for this purpose.

IV. An Alternative Policy

Through a variety of policy tools, the state can pursue a very different version of privatization. The aim of this privatization policy is to achieve a mix of goals, including the following:

(1) redistribution of income between richer and poorer halves of the population, so that the rich pay for some part of the housing of the poor;
(2) moderating or at least reducing market instability, the quick and wide swings in housing conditions that accompany the restructuring that is continuous within capitalism;
(3) moderating or at least reducing the class polarization of the housing stock, with its concomitant class segregation, impover-

ishment of the already poor, and social disintegration of poor neighborhoods;

(4) empowering low-income groups by giving them responsibility for the management of their buildings and neighborhoods.

What follows is an outline of a four-point alternative policy aimed to have an effect with respect to all four goals.

A. Sale of Units at Market Rates to Finance the Policy

Any sitting tenant should be allowed to buy his unit with no restrictions other than those existing in the currently private stock. These sales should be priced at *private market rates*, based on comparison with units now in the private stock, without state loans or interest subsidy. There should be restrictions on quick resale to deter speculation. The proceeds from these sales should be used to finance the rest of the program. Some of the desirable units occupied by poor tenants should be auctioned to the highest bidder without restrictions or subsidies, guaranteeing relocation of occupants. Again, the proceeds should be used to finance the rest of the program.

B. Sale of Units as Limited Equity Cooperatives

Some middle- and low-income units should be given or sold at below-market prices to tenants, with state financing at low interest rates, but with substantial deed restrictions. The first purpose of deed restrictions is to make sure that this part of the stock will continue to be available at low rents or finance charges to middle-income people. The restrictions should also organize apartment owners into cooperatives, with substantial control of building management and new owner selection.

Other units should be sold, at below-market rates, to large professional landlords with restrictions designed to assure the rights of present tenants, continuing middle-income affordability, and tenant participation in management. Substantial preferences, including price and interest rate concessions, should be given to nonprofit private housing organizations (for instance, trade unions). Such organizations should receive state-financed assistance in their formation and in training their personnel.

The proceeds of market-price sales should be allocated to the limited equity and rental sectors, for two purposes: to create a program of housing allowances for low-income households (for instance, pensioners, very low-wage workers), designed to allow them to own or rent restricted units, and to finance low interest rehabilitation loans.

C. Continued City Ownership of Low-income Units

Cities should continue to own and maintain subsidies for some presently city-owned units, but these should be restricted to low-income households unable to function effectively in the private or restricted markets (for instance, the disabled, the elderly, people of diminished competence, socially disorganized families). The proper balance between this policy and that of housing allowances can be determined only by experiment over time.

City-owned units should be geographically dispersed in upper- and middle-income buildings, except where it is desirable to operate "sheltered environments" (for instance, for the mentally ill). City tenants should have participation rights in their buildings, whether the other units are cooperative or landlord-owned. Dilapidated city-owned units should be rehabilitated using proceeds of private market sale.

D. Strategic State Presence in Housing Markets

The state should strategically retain buildings in neighborhoods likely to increase rapidly in market value, in architecturally significant areas, and in areas important for access to center-city culture. These buildings should be leased for terms of years to private entrepreneurs, who then release them at market rates.

The state should create a building-management enterprise, operated for profit as a public utility. It should be required to take all offers, from the limited equity and restricted rental sectors, as a competitor for the private sector. The state should also set up housing court, an inspectional agency, a legal services tenant-advocacy organization, and a planning administration, each legally independent. The role of these agencies is to enforce tenant rights against private landlord, state, and tenant-collective abuse, and to combat neighborhood instability, using zoning, rent control, and "linkage" programs in upgrading neighborhoods, and code enforcement and subsidies in deteriorating neighborhoods. The agencies should also regulate new development according to a regional plan.

Conclusion

Supposing that one arrives at conclusions about which goals to pursue and what tools to employ, a crucial question is that of the competence and size of the administrative apparatuses that will carry out the various policies. If the free market produces corruption by producing great fortunes, the regulated market produces corruption through thousands of small-scale incentives to evasion. The desire of the rich to increase their housing consumption puts them deeply at odds with the poor, and the desire is strong enough to motivate widespread lawlessness. Each regulatory policy calls on a different apparatus (whether the civil courts, building inspectorates, planners in the Ministry of Finance, and so on). The ideal policy mix will take full account of administrative possibilities and impossibilities.

Notes

1. Adam Michnik, "The Two Faces of Eastern Europe," *The New Republic* (November 12, 1990).
2. The beneficiaries of the wealth effects are likely to be old communist elites, prewar elites, new entrepreneurs, and the intelligentsia. The victims of privatization will be the lowest-paid members of the working class, and entitlement-holder groups such as pensioners and the disabled. Equity owners in the old private stock are likely to experience a long-term wealth loss as their units have to compete with newly privatized ones.