The paper examines the changes that the meaning of housing has undergone during transition. It is argued that the ‘shelter’ function of housing has lost some of its significance, while its investment function has gained it. The main vehicle for this change were the two property-centered policies - housing privatization and restitution. The paper observes the transformations initiated by these two policies and examines both their acknowledged goals and the real outcomes, as well as their social costs. It argues that these policies were formulated mainly to solve wealth allocation issues (‘who gets what property under what conditions’), while the housing policy and the welfare outcomes were largely sacrificed, especially the new safety-net provisions.

It is also argued, that it was precisely the sphere of real-property which in Slovenian transition served as a generator of instant wealth (private property). Moreover, this had a significant spill over effect on related public policies such as property tax, land and urban development. These policies remained extremely weak or even unarticulated, allowing thus the first-round winners to multiply their wealth without being subject to proper taxes and enforcement of urban planning and market monitoring systems.

Key words: Housing, wealth, welfare, housing privatization, restitution

1. Introduction

‘...structural transformations of economic systems are a plunge into the unknown; they are driven by desperation and hope, not by reliable blueprints. For political reasons, the reform strategy most likely to be undertaken is not the one that minimises social costs. It is the bitter-pill strategy that combines a turn toward markets with transformations of property’. (Przeworski, 1991: 189)

If ‘transition’ is understood as a multitude of social processes by which socialist societies are developing new arrangements of market economy and of political democracy - the term by no means indicating a single and a pre-determined final destination, then the profound and complex changes of the housing sector during this...
period can hardly be overlooked. The impacts of these occurrences on the housing sector are many-fold. One of them is a profound change of the social meaning of housing.

Under socialism, housing was predominately seen as a means for satisfaction of housing needs, a residential facility to which everyone was entitled and everyone would eventually get housed. However during the transition this understanding of housing as a need satisfactor was to a large degree replaced by the notion of housing as an equity (an asset), which qualifies it’s owner to economic rewards and constitutes his wealth.

At the micro level, this development can be described as a changing relative importance of particular functions that housing has for individual households. In terms of Smith’s (1971) concept of four distinct functions of housing - shelter, privacy, location, and investment, this change may be perceived as a shifting emphasis from the shelter to the investment function of housing. While under socialism, private real-state property was legally restricted to two units per household, the end of socialism alleviated the restriction.

At the macro social level, this shift manifested in public policy formulation and agenda setting. There was a rise of new property-centred public policies such as privatization and restitution, where housing was mainly an issue of property and served a massive re-allocation of wealth, while shelter issues were marginalized and no policies implemented to tackle affordability problems or homelessness.

However, housing privatisation and restitution have affected - and still are affecting - the housing system in a very complex way. As recently some of the outcomes could hardly be interpreted anything but disappointing, it seems relevant to discuss the question of the ‘social cost of transition’, the perspective increasingly used by analysts of transitional processes in Central and Easter European societies (see Przeworski 1991, Stark and Bruszt 1998).

This paper raises the topic of housing privatisation and its social cost by examining some of the visible outcomes. However, a brief description of the process is first given together with some basic information. It is argued in the paper that not only did privatisation and restitution inaugurate the questions of wealth allocation (i.e. ‘when and how who gets what’) as the key political issue, but - as their by-product, managed to severely degrade the societies ability to sufficiently articulate and defend public interest in this sphere.

2. Housing privatisation...

Privatization - the term denoting the sale of the public rental stock to the sitting tenants - was the center-piece of housing reforms that Central and East European societies started in the early 1990s. As more detailed accounts of the Slovenian housing reform can be found elsewhere (see, for instance, Stanovnik 1994, Mandič 1994, Mandič and Stanovnik 1996, Sendi 1996), only the most elementary facts will be presented here.
2.1. Short description of conversion policies

The first feature of the reform, initiated by the Housing Act of 1991 was, that firms ceased to be responsible for allocation of rental housing to their employees. The future provision of rental housing was left to private landlords, newly formed non-profit housing organizations (so called ‘non-profit housing’) and to municipalities (for ‘social housing’).

However, the key feature of the reform was the conversion of the existing public rental stock, which was in social ownership and mostly the property of firms. This gained more public attention than any other issue of the time. While privatization of economy was still in preparation, it was the privatization of the social rental stock that signified that ‘the fortress of social ownership’ has fallen.

Three distinctive conversion policies were modeled. The first was the conversion into owner-occupation on the ‘right-to-buy’ basis. Due to a very generous discount-rate and a repayment period of up to twenty years, approximately 70% of the social rental stock was privatized in this way between years 1991 and 1993.

The second model was the non-profit rental arrangement that was applied in cases, where the sitting tenant would not exercise his ‘right to buy’. The same applied also for those social rental dwellings for which the claims for restitution were made by their pre-war private owners or their heirs. In such case sitting tenant were exempted from ‘the right to buy’ by provisions of the Housing Act, who passed the priority to another right - the right to be restituted. Oddly enough, the right to be restituted was at the time not even legally codified, since the Act of Restitution was passed a couple of weeks later.

The third legal scheme was provided in 1994 specifically for such units, where the right to be restituted ruled about the right to buy. The scheme aimed to improve tenant’s opportunities to exercise ‘the right to buy’ and offered a couple of additional options, which during course of the time proved to be mostly unfeasible and became highly disputed in public discussions and in legal courts. The issue gave birth to some strong interest groups campaigning for the change of the legal provisions by all means - by public opinion, parliamentary lobbing and the Constitutional Court appeals. By the middle 1999 this problem was not yet sufficiently solved and the legally provided options are contested by both tenants and the owners of the restituted dwellings.

2.2. The magnitude

The privatization of the social rental stock has dramatically altered the tenure structure. In 1991, before the privatization started, public rental units comprised 33% of total stock, while the remaining 66% was owner occupied. Two years later, in 1993, public rentals comprised only 8,9% of the stock, while the owner occupied sector increased to 88%, the remaining 3% being the private rental stock. The change was really impressive for such a short period of time. Slovenian rise of home-ownership and the respective decrease in renting is among the steepest in the region.
Table 1  
The tenure structure in 1990 and 1994 in countries in transition

<table>
<thead>
<tr>
<th></th>
<th>Public rental</th>
<th>Private rental</th>
<th>Owner Occupied</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>29,6</td>
<td>27,6</td>
<td>0,9</td>
<td>4,7</td>
</tr>
<tr>
<td>Hungary</td>
<td>22,0</td>
<td>13,0</td>
<td>0,5</td>
<td>1,0</td>
</tr>
<tr>
<td>Poland</td>
<td>29,7</td>
<td>25,4</td>
<td>5,2</td>
<td>5,2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>27,3</td>
<td>26,0</td>
<td>0,0</td>
<td>0,5</td>
</tr>
<tr>
<td>Slovenia</td>
<td>31,6</td>
<td>8,9</td>
<td>3,0</td>
<td>3,4</td>
</tr>
<tr>
<td><strong>Total CETE</strong></td>
<td>28,2</td>
<td>23,1</td>
<td>3,0</td>
<td>3,9</td>
</tr>
<tr>
<td>Albania</td>
<td>35,4</td>
<td>2,0</td>
<td>0,0</td>
<td>0,0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6,6</td>
<td>6,8</td>
<td>1,5</td>
<td>3,2</td>
</tr>
<tr>
<td>Croatia</td>
<td>25,5</td>
<td>10,6</td>
<td>NAV.</td>
<td>3,7</td>
</tr>
<tr>
<td>Romania</td>
<td>21,1</td>
<td>7,8</td>
<td>1,0</td>
<td>3,0</td>
</tr>
<tr>
<td><strong>Total SETE</strong></td>
<td>18,7</td>
<td>7,6</td>
<td>1,1</td>
<td>3,1</td>
</tr>
<tr>
<td>Estonia</td>
<td>65,0</td>
<td>56,0</td>
<td>NAV.</td>
<td>5,0</td>
</tr>
<tr>
<td>Latvia</td>
<td>64,0</td>
<td>54,0</td>
<td>0,0</td>
<td>5,0</td>
</tr>
<tr>
<td>Lithuania</td>
<td>51,4</td>
<td>12,9</td>
<td>NAV.</td>
<td>8,5</td>
</tr>
<tr>
<td><strong>Total Baltic</strong></td>
<td>58,7</td>
<td>36,4</td>
<td>0,0</td>
<td>6,5</td>
</tr>
<tr>
<td><strong>Total transition countries</strong></td>
<td>27,0</td>
<td>18,6</td>
<td>2,1</td>
<td>3,8</td>
</tr>
</tbody>
</table>


As reported in Table 1, Slovenia is quite extreme when compared to other four Central European countries. Slovenian percentage of public renting changed from the highest one prior to 1990, to the lowest one in 1994. Before the transition no other country in the region had as many public rentals as over 30% of its total housing stock, and after privatization none has as little as below 10%. The Slovenian change is extreme even when compared to South European and Baltic countries, where only Albania and
Lithuania witnessed this intensive change. When compared to West European countries, the remaining rental public stock in Slovenia is among the lowest.

2.3. The established objectives

However, the question remains about the aim of this huge change, the change that presented ‘the largest transfer of property since 1945’ (Stanovnik 1992). What were the reasons and arguments for such a radical abolition of this facility that housed one third of the population? The key announced objective of the privatization policy was in economic efficiency of the private ownership. Namely: ‘The anticipated new forms of ownership as well as the sale of the social housing together with denationalisation will radically increase social and economic efficiency of housing provision, leading to the emergence of motives for owners’ (Starting-points for the National Housing Program, p. 4). It should be added that the notion of ‘economic efficiency’ implied mainly better upkeep and maintenance of the housing stock as well as it’s cost recovery.

Without other specific goals, the conversion was generally treated as a ‘natural’ shift towards market economy, which did not need much substantiation. Given the long standing criticism of deficiencies of the former social housing stock, privatization was mainly seen as a way out of notorious social and political problems of low rents and of insufficient operation and maintenance of the housing stock. The beneficial effects of the proposed privatization were sought in comparison only to the previous situation, and not to any other possible options. This feature was common to many other countries in transition, which Kemeny (1995:148) described as ‘the tragedy of the rush to privatize’ since this great asset was given up without considering other possibilities - for instance could be used as a basis for cost rental sector.

2.4. The popular support

There is no doubt that the conversion policies gained a fairly strong popular support. The parliamentary discussion exhibited no difference between political parties regarding the general idea of the conversion, variation was only in details, particularly in terms of the sale. Only very few analyst were critical about the proposed models.

Considering very favorable terms for the beneficiaries of both conversion policies - i.e. of the sale to the sitting tenant and of the restitution, the strong support of the concerned parts of the population is understandable. According to Stanovnik (1994: 1559), ‘a large part of the population could thus experience very tangible results - not to say benefits - following the rupture with the former regime’. There seem to be only winners active at the time, and no group perceived and reported itself as a possible looser. Nonetheless, later on things changed.

A fair popular support for the privatization was also confirmed by a survey (Mandiè, 1994) examining public attitudes towards conversion in spring 1991, i.e. prior the Housing Act was passed. It found positive attitude among 64 percent of the
interviewees. Yet it also reported a significant ambiguity in what was perceive as the major beneficial effects. Among them, the highest score was obtained by ‘improved maintenance and repair’, chosen by 31.9 percent of the total sample, followed by ‘better housing for young people’ (12.9 percent), ‘greater security of tenure’ (11.2 percent) and ‘fairer distribution of housing costs’ (4.8 percent). The remaining 23.8 percent were undecided on effects of privatization, while the rest of 16.5 percent expressed a negative attitude to conversion. The results clearly indicate that conversion policies did have a fairly strong public support at the time. However, it is time to examine the accuracy of these expectations.

3. …and its social costs

It seems that housing privatization was initiated with a few rudimentary objectives, yet during the course of time its consequences appear increasingly numerous, complex and to some degree surprisingly disappointing. In other words, privatization seems to have many unintended consequences. Some of them are observed in this section. We start with those that are closest to the officially announced goals, than we proceed to some other relatively frequent arguments and conclude with some additional observation.

3.1. Management and maintenance of privatized housing

Improvement of management and maintenance of the housing stock was the most expected outcome of privatization. From the newly made home-owners in privatized units in multi-dwelling buildings the Housing Act requested to form a mutual agreement on the maintenance program and make a contract with a management company they choose.

There is no comprehensive data available to empirically validate these expectations, while there are plenty of fragmented information pointing out a variety of problems. The prescribed organization of individual home-owners turned out quite problematic not only in terms of performance, but also in terms of its scope. Namely, according to the Association of housing managers only one third of the home-owners in multi-dwelling buildings became organized as legally required and activated (Delo1995a). According to a survey (Mandič 1994), only 35 percent of the ex-tenants found that maintenance of their building improved after privatization.

If the recent quality of management and maintenance is compared to the situation before 1991, two significant changes occurred with mutually opposite impact. Firstly, competition among the managing companies was successfully introduced. Secondly, professional standards for managers in multi-dwelling buildings ceased to be legally required. This freedom of private landlords from professional requirements was established by the Constitutional Court, where the restituted private landlords succeeded to defend their private property rights. This enables the restituted private landlords to manage their rental property regardless of their professional skills.
On the other hand, tenant participation in management was completely eliminated after 1991. However, the lack of professional skills among landlords is well compatible with the complete disempowerment of tenants, this combination could hardly lead to better quality of maintenance and management.

Yet another two problems, pointed out by Lavrač (1994) emerged in privatized multi-dwelling buildings. First is difficulties in coordination and cooperation of so numerous owners. Second is the problem of numerous poor owners, unable to pay for proper maintenance and renovation of the units they bought. This new problem was created directly by housing privatization and has recently come to be recognized also by housing authorities (see National housing program 1998).

There is also a problem of renewal and reconstruction in privatized multi-dwelling buildings. While the former programs of financing and organizing urban renewal have disappeared after 1991 together with Self-managing interest communities, no financial and organizational substitutes were established.

As a conclusion, a great local variability of outcomes of privatization should be pointed out. Where the new owners were better organized and equipped with proper financial and organizational sources, privatization might have brought greater freedom of choice and flexibility. However, in some places and in some cases privatization did not provide a better solution of problems, but has created even new problems.

### 3.2. Efficient use of the public resources

Under socialism, one of the key argument that developed against the social rental housing stock was, that it did not provide for an efficient use of public sources. It was frequently established that the public capital, once invested into social housing, became tied, ‘frozen’ in the life-long occupancy of tenants and thus tolerated an over-consumption of housing (for instance, a single person remaining in a family dwelling).

Did privatization of rental units ‘de-freeze’ public investments in a way that allowed their more efficient use? This question needs to be split in two separate questions. First, did the privatized units serve households to achieve optimal housing consumption? Considering the lack of empirical data, the following ‘guestimate’ can be made. Privatization of their units enabled a considerable number of households to further climb up the housing ladder in the owner-occupied segment of the housing market and to move from smaller unit in multi-dwelling buildings to larger units and even to single family housing. In 1992, when the bulk of housing was privatized, a very slight increase in general mobility rate was reported - from 2.9 in 1991, to 3.1 in 1992, while in 1993 it decreased to lowest 2.1 (Mandič, 1996). There might also be some trading down, a move to smaller units or to cheaper location and ‘cashing’ the difference in the market value. This kind of a progress was definitely not possible inside the former social rental sector. However, these occurrences should not be exaggerated as substantial proportion of household continued to live in the dwellings they bought.

Secondly, what was the purpose of the purchase money, which firms and municipalities received after they sold their rental property to tenants? Firms and
municipalities could freely dispose with the 80 percent of the purchase money, while the remaining 20 percent were reserved for the National Housing Fund. There was no systematic inquiry of the topic, yet the report of the auditing agency exists and provides the basic picture. The report (Delo, 1995b) found a variety of interesting ways to utilize the purchase money: firms mostly consumed it for wages, while municipalities used it for purposes varying from public garages to renewed catholic churches. This evidence could hardly establish that the privatization of public housing enabled public resources to be used more efficiently for the sake of housing, but to the contrary.

3.3. Social and regional inequalities

Under socialism, allocation of public rental housing was criticized by observers for being biased in favor of the upper strata and their merits and was thus blamed for generating social inequalities (Szelenyi 1983). Unfair allocation was among the factors that crucially eroded its general legitimacy. Did privatization managed to change this pattern of inequalities?

Observers in U.K., where privatization of council housing occurred quite earlier, established that privatization itself generated social and regional inequalities: those tenants who were already better off, also profited most from the favorable terms of the sale, from the best quality units and the best locations (Forrest and Murrie, 1986). Was Slovenia different?

Stanovnik (1994) very early reported basically the same pattern. He empirically established much higher incidence of sale in more prosperous regions. Namely, during the first year of privatization, 49 percent of tenants in Ljubljana bought their unit, while in downgraded areas such as Trbovlje only 8 percent did. In his later research (Stanovnik, 1994) he found that the sold units had significantly better quality than those which remained unsold, were larger (average floor space being 57.5 m² and 48.9 m², respectively), and newer (average age was 26 and 36 years, respectively). His conclusion was that the better-off tenants in units of higher quality and in better locations benefited much more than tenants in worse units and other locations.

If inequalities were the problem, Slovenian housing privatization was definitely not the solution.

3.4. Housing opportunities

Privatization certainly increased housing opportunities of most of those, who managed to buy their units and which present approximately 20 percent of the Slovenian population. However, the question remains about its impact on housing opportunities of the rest, especially of those in need and of the coming generations.

The magnitude of privatization has lead to a drastic decrease of the rental stock. Comprising 9 percent of the total stock, it is among the lowest in Europe. On the other side, the new additions to this stock (i.e. social and non-profit housing) were small indeed: up to 1996, altogether 1700 of these units were acquired and allocated (Nacionalni
Thus, the opportunities to enter moderately priced rental stock have dramatically diminished during 90’s, while at the same time new social risks emerged, especially of unemployment. Among the newly emerging risks during transition is homelessness. It is still not recognized as an issue of public policy and the responsibility of the state for the homeless recognized.

Yet there is also the impact of housing privatization on demographic trends and groups. Namely, the lack of accessible rental accommodation will reduce housing opportunities of those demographic groups, that have more difficulties in entering to owner-occupied housing and are most dependent on accessible, moderately priced renting: younger households and the growing group of single households and single parent households. Further growth of these (non-classical family) is the general demographic trend in developed countries (Sweet 1990) and can be expected in this region as well.

This applies to new household formation as well, where the younger generations are more severely affected and whose chances for autonomous housing are most seriously affected by the over-reduced rental housing.

3.5. Social justice

It seems that it was in terms of social justice that the conversion policies were least successful, as the outcomes of their property re-allocation came to be perceived us unjust and disputed in a variety of perspectives and by variety of groups. In other words, it created a set of new cleavages and allowing a number of groups to perceive themselves relatively deprived in comparison to others.

Firstly, the housing privatisation outcomes. The undisputed beneficiaries of privatisation - i.e. ex-tenants who bought their units - have in public opinion increasingly gained an image of privileged persons, who were given a uniquely favourable opportunity to become owners, while the rest of the population had and still have to earn it much harder. On the other side, the tenants who didn’t manage to buy their units, particularly because of the restitution, came to symbolise a victim of the new, recently created injustices. Paradoxically, thus, allocative outcomes of both groups are recently perceived as unjust.

Secondly, the outcomes of the restitution, one of the most disputed recent issue in Slovenia. Paradoxically, it was precisely the social justice argument that pave the road for the restitution policy. Early in 90’s a notion started to prevail that the early post-war expropriation of some of the private real-estate property had been unjust and that original owners (or their heirs) are entitled to reparation. The expropriated housing had been mostly the housing that exceeded the personal use of the private owners, much of the property constituted multi-dwelling (tenement houses) with rental dwellings. Claimants could choose the form of the restitution and the great majority opted for the restitution in kind. Thus, the situation emerged, where the former owner’s right to be restituted defeated the tenant’s right to buy.

This suppression of ‘the right to buy’ by ‘the right of restitution’ was often perceived as problematic in terms of social justice, yet there seem to be two other, larger problems.
First is the legal and public policy procedure that lead to this. It was the Housing Act that suppressed ‘the right to buy’ for those units that would be claimed for the restitution. Oddly enough, this was a ‘blank reservation’, as the restitution rights and procedures were not yet legally codified at the time (the Act of Restitution was passed a couple of weeks following the Housing Act).

The second problem of tenants in restituted units soon emerged: the restituted landlords soon started to reject the arrangement that tenants were legally guarantied and strongly pressed for de-regulation, which was partly successful. Tenant’s rights are being permanently questioned and at the moment, governmental proposals are in preparation to re-define the rent-setting methodology and to introduce forced re-allocation of tenants. However, this landlord-tenant relation became strongly contested by both sides and will eventually be settled only at International court for human rights in Strasbourg. At the moment, the tenants in restituted dwellings seem to symbolize one of the ultimate losers of the transition.

4. Conclusions

The paper examined the changes that the meaning of housing has undergone during transition. It was argued that the ‘shelter’ function of housing has lost some of it’s significance, while it’s investment function has gained it. The main vehicle for this change were the two property-centered policies - housing privatization and restitution. It was argued that they were formulated mainly to solve wealth allocation issues (‘who gets what property under what conditions’), while the housing policy and the welfare outcomes were sacrificed to a significant degree. The paper observes the transformations initiated by these two policies and examines them in terms of both their acknowledged goals and the real outcomes and social costs.

It was pointed out that housing privatization succeeded to unleash (de-froze) most of the capital invested in social rental housing. However, it’s subsequent use, ranging from industrial wages to renovation of catholic churches, does not indicate a more efficient use of the sources for the sake of housing sector, but to the contrary - housing sector was the loser and subject to a massive out-flow of capital. While privatization unleashed the ‘tied’ capital, there was no sufficient concern to re-channel it to back and use it a more efficient way.

This occurrence could hardly be interpreted as an accidental slip, since it clearly manifests a particular sequencing of events: while the bulk of the purchase money was generated in 1992, the new housing policy was not implemented until much later. For instance, Ljubljana’s housing program was not ready until 1995. Moreover, the National housing program, which is to provide the state’s guidelines and enabling support for the local housing policies, is even in 1999 still only in preparation.

The lost opportunity to direct the capital flows, which were generated by privatization, into new housing policy arrangements, had many consequences. One of them is an almost complete lack of financial sources in the state budget to fuel the new housing
policy. Without sufficient sources the state can not seriously pursue the enabling strategy, which it declared after dropped the socialist providing strategy. Moreover, it can’t sufficiently provide for the social safety-net provision either. This is particularly obvious in treatment of homelessness.

Homelessness has not yet become an issue of housing policy; it is not defined, nor any responsibility for the homeless by the state assumed. Furthermore, even the right to adequate housing as a human right is not recognized. Namely, as late as 1996, Slovenian ombudsman clearly negated existence of any right to adequate housing as a component of human rights: ‘With continuing forced evictions new conflicts can be expected. Individuals and the state are not ready for new circumstances. Many still rely on the state to support them with housing or refer to ‘the right to housing’. Such mentality is manifested in numerous initiatives, contrary to the fact, that constitutionally the state is responsible only to create conditions enabling the citizens to procure adequate housing on their own’ (Varuh človekovih pravic 1996: 143).

However, housing privatisation and especially the restitution had triggered a massive (re-)allocation of wealth and significantly added to what Lester Thurow (1996: 274) describes as the initial distribution of the purchasing power with which ‘to start to play the capitalistic game’. Without privatization and even more without restitution, the Slovenian capitalistic game would have had somewhat different start. Moreover, it was precisely the sphere of real-property which in Slovenian transition served not only as a generator of instant wealth (private property), but as it’s multiplicator as well.

This had a significant spill over effect on other public policies, which were related to real-property issues such as property tax, land and urban development. These policies remain extremely weak or even unarticulated, allowing thus the first-round winners to multiply their wealth without being subject to proper taxes (property tax, betterment tax etc.) and to sufficient enforcement of urban planning regulations. Moreover, this multiplication is not subject even to modern information and market monitoring systems such as accurate land cadaster and housing registrars.

Indeed, articulation and enforcement of public interests and policies in this sphere were delayed and did not interfere with the ‘primal’ allocation and multiplication of private wealth. However, their further articulation and enforcement will face opposition from the already vested strong interests. Are recent public policies not prisoners of the ‘first round winners’?

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