Poverty Spreading in Germany's Big Cities

by Rainer Apel

Updating German municipal finances for the first six months of 2002, the DST, the national organization of the German cities, warned at several occasions during the last week of July, that the survival of core functions of urban life was at risk. The discrepancy that three times more municipal money is being spent for social welfare, than for urgent urban development, is one crisis symptom cited by the DST. Revenues from corporate and trade taxes have been a mainstay for the cities; but in 2001, they shrank to zero; municipalities no longer can even think of somehow managing budget cuts. The sad "leader" in this trend is the city of Ludwigshafen, dominated by the BASF pharmaceutical giant, which reported a drop of income from the trade tax of 68.5% in 2001. Seemingly better off are cities like Cottbus reported "only" a 21% drop.

Municipal finances are being eroded additionally by the need, under German law, to *reimburse* many companies for pre-paid taxes on last year's projected corporate income, now wiped out by the economic depression. Corporate losses in recent months, and revised profit reports for last year, force the cities to plunder their budgets to be able to reimburse the companies.

'Bankrupt in Munich'

Munich, Germany's third-largest city, must collect 120 million euros (about $120 million) to reimburse Hypovereinsbank, Germany's second-largest, for "overpaid taxes." Announcing that, and stressing it cannot find any such sum in its already-squeezed austerity budget, the Munich municipal administration on July 25 produced headlines throughout the nation that spoke of "bankruptcy in Munich," adding that many more German cities were in the same situation.

Another problem is the national government's obsession with budget-balancing; as of January 2001, it decreased the municipal share of the trade tax from 30% to 20%, thereby improving the tax revenues of the national budget a bit.

Anticipating this explosion of alarmist reports at the end of July, Stephan Articus, general manager of the DST, warned in a speech in Berlin already on July 5, that Germany's cities were engulfed by the same collapse dynamic that can be seen in Argentina. He said that municipalities needed extra borrowing, this year, of 8 billion euros just to balance short-term liquidity bottlenecks. German cities have eliminated 550,000 public sector jobs since 1992, cut net investments in urban infrastructure and services by 34%, or 11 billion euros annually, over the same ten-year period, and now, the main purpose of their borrowings is to cover short-term liabilities, Articus said. "These are conditions similar to those in Argentina," he added—which reminded many that this point had been made by the Civil Rights Solidarity Movement (BüSo) in mid-June 2001, when the Berlin Senate collapsed beneath uncoverable debt and cascading banking crises.

Of all municipalities, the city-state of Berlin, Germany's capital and largest city with 3.4 million inhabitants, is in the most dramatic situation. On July 24, the Berlin Senate presented its first report on social affairs, also known as the "poverty report," since 1991. Berlin, which has eliminated almost 75% of its productive sector jobs since 1990 and embarked upon establishing "new economy" and other service-sector enterprises, today can cover only 40% of its current budget by tax revenues. The new poverty report shows that 20% of the Berlin households were depending on unemployment benefits or social welfare in 2001, whereas it was only 7% in 1991; and 12.8% of all Berlin's citizens live below the official poverty level. Single mothers with children under six are in a worse situation: 28% live in poverty, and the poverty rate among single mothers with children under three, might be twice as high, which revals the acceleration of this process of pauperization in the most recent years.

Suicide by Deindustrialization

In districts with jobless rates above 20-22%—like Kreuzberg, Mitte, Neukölln—the overall poverty figure is 23-27%. Only 41% of Berlin households live on income from a regular job—ten years ago, it was 82%. Since every worker who is jobless for more than 32 months becomes ineligible for unemployment benefits, and becomes a welfare recipient, the destruction of industrial employment has turned suicidal for Berlin.

Munich, with 1.3 million inhabitants, in 2001 still had more jobs in the productive sector than Berlin with its 3.5 million. But the collapse of the new economy haunts Munich. Its loss of jobs from June 2001-June 2002 is unmatched by any other big city of Germany: an increase of unemployment by 31%; and among citizens under age 25, even 66%. One cannot rule out that because of this dramatic development, Munich might be in a worse situation than Berlin next year.

But Berlin's citizens have a per-capita exposure to debt that is seen nowhere else in Germany, and is even several times the per-capita debt of Argentines. As for Argentina, there is no way to recovery for Berlin or other German municipalities, without a thorough bankruptcy reorganization of urban finances. Urban life will have a future only once funds for investments in public infrastructure and vital urban services gain priority over debt repayments, and tax revenues from expanded real production begin flowing again into municipal treasuries. The BüSo's national chairwoman Helga Zepp-LaRouche, a candidate in Berlin for the national elections on Sept. 22, has been calling for exactly this solution.