

# Many German local authorities nearing bankruptcy

**Elisabeth Zimmermann****21 January 2010**

At the start of 2010, a number of local town and district councillors in Germany began to reveal the catastrophic current state of local authority finances. Government budget policies, together with the international financial-industrial crisis, have drastically intensified the economic pressures on many municipal and district authorities. Their level of debt in 2009 climbed to €5 billion, and it is feared that these debts could rise to €50 billion within the next five years. Hitherto unimaginable cutbacks and economy measures will be the result.

According to the German congress of municipal councils, local authority council tax revenues fell by €7 billion in 2009. Income from business taxes, the main source of revenue for local councils, fell by 18 percent. These taxes are paid by local businesses to their respective town or district governments.

For some local authorities, these business tax revenues have sunk by as much as 60 to 80 percent. The affected regions were, above all, those whose industries were running at full capacity until 2008 and then collapsed last year—for example, firms serving the auto and associated supplies industries, engineering, and the steel and chemical industries.

At the same time, social welfare payments, including the housing costs for unemployment benefit recipients, have risen sharply. These payments reached a record €40 billion in 2009. The director of the congress of municipal authorities, Stephan Articus, stated that he expects the gap between income and spending in council budgets to reach a record negative level of €11 billion during this year.

On top of the general impact of the economic crisis, the so-called “law to accelerate industrial growth,” introduced at the end of last year by the German government—a coalition of the right-wing Christian Democratic Union (CDU), Christian Social Union (CSU), and free-market Free Democratic Party (FDP)—has exacerbated the problems. Due to this law’s tax

reductions on businesses and other measures, the tax revenue of local authorities will be further reduced by about €1.6 billion this year.

The meagre extra amount allotted to families (€20 per month) will be swallowed up by increased fees for kindergartens and child day centres, and costs associated with the lengthening of the school day. Last year, countless indebted town and district councils already implemented drastic cuts and economy measures affecting local authority infrastructure, social and cultural facilities, and welfare services.

Leading the field in this respect is the German capital, Berlin. Regarded as the “Capital of Poverty,” it has been governed for nine years by a coalition made up of the Social Democratic Party (SDP) and the Left Party (or its predecessor). Nowhere has public spending been so dramatically slashed, and staffing, wages and social services so brutally cut. The number of people signing on as unemployed or working at “one-euro” jobs (a German system whereby jobseekers are forced to take extremely low-paid employment to supplement their benefits) has reached record levels in Berlin. Many social and cultural facilities have been closed down or have drastically increased their membership fees or admission prices.

Similar problems now affect many eastern and western German towns, which have been suffering under the impact of the economic downturn and higher unemployment rates for years—e.g., in North Rhine-Westphalia, and above all the Ruhr region. Here too, numerous public facilities such as youth hostels, swimming baths, libraries, theatres and other cultural facilities have already been closed down.

According to a recent report in the *Süddeutsche Zeitung* newspaper, many western German town and city councils are only staying afloat by taking out short-term loans. Even the city of Leverkusen, lying between Düsseldorf and Cologne on the Rhine, and headquarters to

the international chemical concern Bayer AG, slipped into the red this year. At the present rate, the city's debt burden in 2015 will exceed the total worth of local council assets.

Like many other towns in the Ruhr area, Leverkusen is administered like a bankrupt company in receivership. All necessary purchases, including items such as a new fax machine, must first be authorised by the district council authorities. Communities such as Oberhausen, Essen and Wuppertal have long been operating under these conditions.

The *Süddeutsche Zeitung* quotes the president of the German local authorities' association, Christian Schramm (CDU), also the mayor of Bautzen, as follows: "In Essen, a designated European Capital of Culture, primary schools have been closed; in Remscheid, the street lights are turned off at night, and in other towns and districts, water temperature levels have been reduced in public swimming baths. You must be asking yourselves, what is the need for these strange actions? The question is justified. These are actions that would have been unimaginable 10 years ago."

Even new programmes providing care for children under three years old, social services particularly in short supply in western Germany, are wreaking havoc on local authority budgets. The German parliament recently decided that all parents should have the right to such child care by the year 2013. They have left the financing of this guarantee, however, to local authorities, whose sources of revenue are being cut off. For this reason, the chief executive of the German Association of Towns and Municipalities, Gerd Landsberg, says "this guarantee cannot be implemented."

A survey conducted by the Forsa research institute recently revealed that 66 percent of parents will want to claim a child care place, as opposed to the 35 percent of parents estimated by parliament when it passed the law. That means 1.3 million child care places have to be created, as opposed to the 750,000 originally envisaged, and this involves hiring and training an additional 150,000 child care workers.

Alongside the drop in business tax income for local governments, their revenue from income taxes is also falling, due to rising unemployment levels, short-time working and reductions in wage levels.

The national and state governments have also burdened local authorities with innumerable new laws and regulations over the past several years. For example, the German parliament has reduced its contribution to the

housing and heating costs of people living on unemployment benefits or social security, just as those costs are rising.

To take one example: in Dortmund, where those heating and housing costs are no longer covered by the state "purse," such costs have risen over the last two years to €9.5 million. Thus, a rise in local council debt is inevitable. According to a forecast made by the municipal congress of North Rhine-Westphalia, 47 percent of local councils will be unable to keep any auditable budget accounts if they meet all their obligations, and therefore will have to subject themselves to the strict austerity programme of the relevant District Authority.

In Wuppertal, which has been particularly affected by the financial crisis, five public swimming pools are to be closed this year. In addition, the town mayor, Peter Jung (CDU), has proposed the suspension of the planned renovation of the town theatre, and a €2 million cut in theatre subsidies over the next four years. This could lead to the closure of the theatre, which achieved world fame through its association with the Tanztheater Wuppertal Pina Bausch.

Düsseldorf's district president, Jürgen Büssow (SDP), in charge of most of the towns being run under administration in North Rhine-Westphalia, has praised Jung's proposals and put them forward as an example to be followed by other towns in financial trouble. In an interview with the *Westdeutschen Allgemeinen Zeitung*, he announced, "I must say, the courage of the Wuppertalians to close their state theatre is really noteworthy." In the same interview, he called on several cities to merge their administrations in order to reduce staffing costs.

In contrast to the banks and financial institutions, which received hundreds of billions of euros from the German government, local councils can expect no such assistance. When it comes to the social and cultural needs of the population, no money will be made available. The CDU-CSU-FDP coalition government has just created a "debt-limitation law," anchored in the constitution, that acts as a mechanism to shift the burden of the crisis onto the shoulders of the working class.



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